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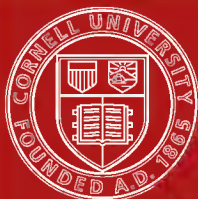
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**CO-OPERATIVE CREDIT FOR THE
UNITED STATES**

BY THE SAME AUTHOR

PEOPLE'S BANKS: A RECORD OF SOCIAL
AND ECONOMIC SUCCESS.

CO-OPERATIVE BANKING. ITS PRINCIPLES
AND PRACTICE.

A CO-OPERATIVE CREDIT BANK HAND-
BOOK.

CO-OPERATIVE CREDIT BANKS.

CO-OPERATION IN AGRICULTURE.

CO-OPERATIVE CREDIT FOR THE UNITED STATES

BY

HENRY W. WOLFF

Late President of the International Co-operative Alliance, author of
"People's Banks: a Record of Social and Economic Success";
"Co-operative Banking"; "Agricultural Banks: Their
Object and their Work"; "A Co-operative Bank
Handbook"; "Village Banks: How to start
them, how to work them, etc."; "A
People's Bank Manual"; and
"Co-operation in
Agriculture"

New York
STURGIS & WALTON
COMPANY

1917

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Set up and electrotyped. Published, May, 1917.

PREFACE

EVIDENTLY Co-operative Credit has become an object of attention to the American public. The echoes of European records of success have sounded across the Atlantic and people in the United States appear desirous of putting the approved European recipe for want of working capital to a test.

Of the great value of Co-operative Credit as a productive force and a creator of widely diffused wealth there can no longer be any question. The object to be accomplished is to put the successful principle in a shape to suit American surroundings.

Time and circumstances have given to the one immutable principle dominating throughout a variety of differing shapes and accordingly produced a number of "schools" now proffering conflicting advice.

Under such circumstances perhaps an impartial and "objective" presentation of the matter, coming from one who has for nearly a quarter of a century been a close student and careful observer of the entire co-operative credit movement, in all its parts, in touch with all its various sections, though not identified with any as a partisan, may prove acceptable to American readers as a help for further consideration and do something towards preventing false starts, which under the present aspect of things are a danger to be reckoned with.

The same ground has, up to the dates of publication of the several works, been covered by the same writer in earlier books. Those books were, however, written specifically for British readers. In the present book it has been the author's endeavour to present the same picture, as fully and as impartially, in a manner suited to the ideas and habits of an American public.

H. W. W.

May, 1917.

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CO-OPERATIVE CREDIT FOR THE UNITED STATES

CHAPTER I

WHY CO-OPERATIVE CREDIT IS WANTED

OPINION in the United States has settled down to the conclusion that handier and more accessible credit is one of the most crying needs of the day. Three Presidents succeeding one another in office have given forcible expression to that conviction; and Congress and other large and representative public bodies — like the Southern Commercial Congress — have lent it their authoritative support. An official Commission of Inquiry has been despatched to Europe specially to take note of what is being done in that quarter of the globe to meet such pressing want, which it has rightly been concluded is not one of local occurrence only. It is general throughout the world. The shoe is in the United States at the present moment found to pinch most painfully in the province of agriculture. There are special reasons for this. But once the source comes to be tapped, there will probably be more people to want to drink of its refreshing waters. Experience in this matter, as might be demonstrated by instances, goes to show that the need of credit is not generally

definitely realised before relief is actually brought within reach; whereas, once credit is provided for, a multitude of fair claims soon come to be set up. The presence of the remedy provokes a diagnosis of the disease. In the very case of the inquiry just alluded to, it is rather the report of what is being done elsewhere which has called forth such research than a previously clearly realised want — although after the suggestion of means of relief offered that want has been clearly enough admitted.

Credit, of course, there is — a large volume of it, in the United States as elsewhere. But there can be no question but that the use of it still remains, as it has been from the date of its first introduction, the privilege of a minority, to wit, the wealthy, and that it has trickled down only slowly and sparingly, and very unequally to the lower strata. Much as this is to be deplored — since, in the late Signor Vigano's words, it is the poor who needs credit most and, as Signor Giustino Fortunato has put it, "the poor is denied credit because he is poor, and he remains poor because he is denied credit" — there is nothing but what is perfectly natural in this state of things and no fault whatever is to be found with the bodies dispensing credit on the score of supposed unfair partiality. It is custom which determines practice, not inherent justice. Nothing teaches the advantages of the use of money like the possession of it; and, since credit is impossible without security, he naturally is the first to obtain credit who has the most visible — and, if necessary, attachable — security to offer.

It will be well in this connection to bear in mind of how recent origin really credit in our present sense — productive credit — is. Credit of a certain sort — consumer's credit — there has been ever since there has been money. The man in need naturally appeals to his neighbour to rescue him from his embarrassment. Kings in difficulties have, as Léon Say says, borrowed on the security of their crowns and jewels. Spend-thrifts have invoked the aid of the usurer to help to ruin them. The man whose ship has unexpectedly failed to come in, or whose harvest has disappointed him, has, like Shakespeare's Antonio, gone to his particular Shylock for assistance — and has got it. There is plenty of this kind of borrowing still going on, and probably will be while the world stands. Everybody, except the usurers who fatten upon it, recognises it as an evil and a danger. Plenty of wise saws — which are now freely misquoted against credit of a totally different sort — have been coined, from King Solomon's day downwards, to brand it as a snare. "Who goes a-borrowing goes a-sorrowing," "He that hateth suretyship is sure" — there are plenty of such proverbs which, like every proverb, are unimpugnable in their proper sense, but wholly out of place in other applications. All this kind of credit is consumer's credit — credit which is designed to make up some loss already incurred. It may be legitimate. In the majority of cases it is not so. In favourable cases it may reduce loss to the borrower by enabling him to tide over a difficult time. It never produces value. As a rule it adds loss, which may be heavy, to loss

already incurred. It is reflection upon this kind of credit which has prompted that overtimid rich men's superstition, that whoever is poor is not entitled to credit and should under all circumstances be denied it.

There can be no doubt that credit of the sort just described should be discouraged.

However, the credit which public opinion now demands in the United States — in the first instance for farmers — is of an entirely different complexion. It is in very truth the very antipodes of improvident credit, and offers in fact the most effective antidote against it. Far from engendering improvidence, it impresses upon the mind a vivid sense of responsibility, as nothing else will impress it; it trains to provident employment of money and teaches businesslike, precedent calculation. Far from leading to loss, it guards against it and produces value. Far from weakening character, it directly strengthens it. It is a credit which will repay itself out of that on which it is spent.

Credit of this sort the world requires greatly, in steadily increasing volume. For trade, commerce, industry — every productive calling — advancing by degrees, has long since outgrown its accustomed, old-world, binding garb. It wants space to expand in. It wants more nourishment to increase its size. Translated into economic English, that means in the main that it wants more money to work with. For it wants more, or else better skilled, labour to feed it — which labour has grown dearer with increasing demand. Or else it wants costly, up-to-date, labour-saving ma-

chinery to make that labour dispensable. It has more competition to face, which means, that it must manufacture on a larger scale, so as to manufacture more cheaply; and with greater care, so as to turn out a tip-top article. All this requires a larger command of cash.

Such cash may well be hired only. For it is wanted only to perform a distinct task occupying a limited space of time, which time elapsed, it will return with interest and may be repaid. It answers a productive want just like tools, or power, or raw material. In fact, it is to greater advantage that it should be hired than possessed. For money possessed, its owner is free to deal with according to his momentary fancy, without owing any one any account. If he wastes it, that is his own affair, and no one can haul him over the coals for reducing the productive power and wealth of the nation. Let the money be borrowed only, and the man who employs it cannot help feeling his responsibility at every turn and in every act. That money has to be repaid, and repaid within a given time. Such consideration cannot fail to make our man careful.

From a mere convenience, mere improvident, risky and costly accommodation, in this manner credit has been raised to a more dignified position, for which the way has been slowly paved by the purely commercial or banking employment of credit (for the transmission of cash or the facilitation of the sale of goods); on which completed transactions credit has for a long time back been allowed. Its sphere of action has, from the past,

or at best the present, become extended to the future.

Here was a new opening for credit of far-reaching and most beneficent import! Here was a new stimulus to business, which promised to carry it successfully over all obstacles of modern business organization! Assuming that the enterprise was sound, there were no longer any limits to the working power of the capital employed. Credit would increase it according to requirements. Credit would admit of the use of the most perfected machinery, the most efficient power and wholesale production.

The world has benefitted largely by that admission of credit as a productive factor. For, as far as it could be claimed, by far the greatest part of the world's business is now carried on with the use of credit. And, were credit to cease, trade, industry, commerce, even national finance and whole countries' care for social needs would come to an end.

Unfortunately there was still the problem of security to be reckoned with. For credit is of course altogether impossible without security. And the security must be such as will satisfy, not the borrower, but the *lender*. Credit means "faith." The ancient Romans openly spoke of "*fides*." The lender wants to be able to repose "faith" in the borrower or in his enterprise if he is to part with his money. And he naturally turned to a visible foundation for his trust or faith first, because he did not know of any other. He would lend, not for the most promising enterprise, but to the wealthiest person embarking upon it. Accordingly credit naturally gravitated to wealthy men, who have known so

well to turn it to account that it is no exaggeration to-day to say, that the most valuable benefit that the possession of money ensures in business is, that it permits the largest credit. It is, for instance, on their money obtained by credit that bankers net their profits, not on their own share capital, although that very reasonably is made to serve as criterium in the act of distribution.

However, the man who is not wealthy requires credit for his business quite as much as, if not more than, the *Croesus*, as the Italian economists, already quoted, have shown. And in the interest of the community it is of the greatest importance that he should have it. For the community is made up, not of the few rich men who gleam like sunlit mountain tops scattered over a wide surface, but in the main of the humbler strata of the population, whose well-being determines its own. Our humbler man, indeed, requires credit all the more for the very reason that he is less well endowed with capital. If he is in trade, it is very likely that he will have on his part to allow credit to his customers. He must — like his wealthier rival, with whom he competes — produce up to the mark, and for that he requires the use of money. The money will be worth the lending, because in comparison with his wealthier neighbour our smaller man brings more of what really is his own to the more modest enterprise. His labour stands for more in the collective account. There is larger scope for the exercise of his personal qualities, his judgment, his talent and his efforts, in proportion to the money employed.

These poorer claimants for credit have thus far been only very inadequately supplied with it. There has been some credit, indeed, which has trickled down to them, owing to some fortunate circumstance or other. But it has been eclectic, capricious, independable, and certainly insufficient credit, filtering down unequally to the lower strata, like the moisture which in Down country has in places decomposed the barren, dry chalk, to form of it that marvellously rich red soil, decayed chalk, which will bear magnificent crops, while leaving the great mass of that chalk formation by its side in its pristine condition, barren and dry.

This being so, let us picture to ourselves what readily accessible credit for any one who could profitably employ it would do for the improvement of economic conditions in the world. The small tradesman, the small manufacturer, the working man with ideas and honesty — it is these who make up the bulk of the world's population and whose wellbeing means the wellbeing of the world, as their distress means the distress of the world. There are millions of creatures with gifts, with powers, with ability, condemned to a scale of earning which is much below their abilities, to a measure of production the exiguousness of which leaves the world the poorer. We have read lately with admiration of the great work of soil-improvement in progress in Egypt, by which hundreds of square miles now lying absolutely barren, as being saturated with salt, are to be changed into fertile loam, producing in the shape of peculiarly silky cotton one of the most remunerative crops, by the simple process of unsalting. Comparing large things with

small, on a far larger scale might a similar fertilising work be carried out in the human desert of under-utilised labour, could the pernicious salt which now sterilises it, in the shape of the want of a suitable working fund, be removed from it.

There is not a stratum in human society in which at some point or other the use of cash could not evoke richly generating power and promote production profitable for the world as for the individual. Give these people, so far as they are found deserving of it, the use of cash, place the financial ladder before them on which they may mount from rung to rung — what a different world would this world of ours become!

The need here instanced has in the United States been most noticed in the case of Agriculture, in the first place because Agriculture has greatest difficulty in accommodating itself to the traditional conditions of the credit market, and, in the second because Agriculture finds itself in a real fix owing to a great change in the circumstances amid which it is called upon to work. As the Hon. J. Wilson put it while still at the head of the United States Department of Agriculture, Agriculture has in the United States for the most part passed through what he describes as the first stage of its development, the "exploitational" stage. That, no doubt, still leaves a very considerable portion of it in that early stage. For we read of diminishing crops and of a steadily shifting — and indeed dwindling — farming population — in the South one third of the cultivating farmers being in possession of their holdings only one year or less. The second stage, according to

Mr. Wilson's chronology, brings no relief. For it is the stage only of astonishment at the unexpected falling off of returns which leaves farmers — as many accounts testify — with scarcely any remuneration — if indeed any — for their labour and risk. Farmers stand aghast at the discovery that the old accustomed methods will no longer produce the accustomed results. Many of them desert their calling and add to the over-filling of towns and of other walks of life, while statesmen, like the three Presidents referred to, complain that at this rate it will not be long before the United States, once the granary of the world, will have to import food, instead of exporting it. Beyond the stage of wondering despair and astonishment only a small vanguard appear thus far to have advanced into the promised land of intensive, paying Agriculture, in which science and skill, with a well filled exchequer at their back, re-fertilise the exhausted soil and scientifically produce full crops by providing the proper nutriment and cultivation for them. There are some pioneers, some men with brilliant records, whose success ought to serve as an encouragement to their class. But they are comparatively few. It is for such resuscitation of Agriculture that the use of money is required. And it will well repay it. Science and skill by themselves will avail nothing. They must have the material to work upon. And the material, and also its proper manipulation, cost money. We have got to that stage in Agriculture in which the dollar tells, and the more dollars there are, the more certain and the more substantial will be the effect. For it is always the *last* hundred-

weight of fertilisers, the *last* sack of feeding stuff which produces the largest profit. The first allowance serves only for sustentation. Nourish a bullock on sustentation rations and he will never be fit for the butcher. Manure a field in a niggardly way and it will at best repay the cost of production. What produces profit lies beyond. If we want to hold our own in Agriculture, make the land, greatly appreciated as it has become under increasing demand, pay, we must have a bagful of money to lay out upon it without stint. The story of the owner of a thousand acres and three daughters is well known. He just managed to make both ends meet, and when the time came for giving his eldest daughter in marriage he had no dower to bestow upon her. So he gave her 250 of his 1,000 acres of land. "We shall have to pinch to eke it out," was what he said. But to his surprise he did better on the reduced area. His small working capital went further. And he did best of all when, having married all his three daughters, and giving each the same portion, he had only 250 acres left to employ his old working capital upon, which at first had had to do duty for 1,000. The Romans had a proverb which said: It is not the land which produces the crop, but the year. What with the pressure of population and the ample new resources which science and observation have placed at our disposal, it is now distinctly the dollar—to be directed of course by skill and businesslike management—which produces, upon a soil which to-day serves for little more than to give the crop its standing room and the requisite physical conditions, not its nutriment, not

the necessary nursing and training. The supply of that must be left to the dollar.

The truth of this is still far too little understood. America is not singular in this. There has been the same tale to tell in every country of the globe. It is a difficult lesson to learn. In no calling is the "wisdom of our ancestors" held in higher esteem, is the old "leather jacket" more reverently respected than in agriculture. "My father farmed in this fashion, why should not I?" The hidden scientific ways of crops and beasts, the secrets of plant nourishment and animal nutrition make themselves appreciated by the brain of the practical worker only with difficulty. To bring that about we still want what a present day American writer has called "a veritable campaign of education." There are plenty more things in heaven and earth than are dreamt of in our old farmers' philosophy. Add to that that the farmer is by nature — all the world over — an uncommunicative, rather distrustful, self-engrossed and self-sufficient being! I write as a man who has been one. And, if it were otherwise, if the knowledge of the new agricultural teaching were to penetrate into the farmer's mind, if he were to grasp the value of a scientific rotation of crops, of cow testing, of eclectic breeding and so on, where is the money to give effect to it?

It is perfectly true, as is often objected, that there are farmers in the United States who can borrow money at fair rates. No doubt there are. Substantial men can always obtain credit anywhere, whatever their calling. But how many are there who are so situated?

And do these men, and can they, use their credit to the extent that it ought to be used, for employment on their field, in the same way that manufacturers and merchants use theirs? That, I fear, is greatly to be doubted. It is so just because it has not yet dawned upon farmers as a class, what very profitable use might in their calling be made of working credit, which puts value into the farm and gathers it back with increase in after all only a very short time. And it is to be feared that the number of farmers so privileged is only small, if not insignificant. An American banker of note, being recently in Europe, was greatly struck with the very large number of farmers' promissory notes held by the Bank of France, which had discounted them. Some of them were for large sums, the majority for small, down to exceedingly moderate amounts — even a single dollar. "How is it," so he says that he asked himself, "that here there are these millions and millions of francs of farmers' 'paper,' which mean fructifying money, when in the United States there is not one farmer's promissory note so held that I am aware of?" And that result witnessed by him, so it will be well to explain, was without the intervention of any artificial "Agricultural Credit" organisation. For the Bank of France discounts on its own account very much larger amounts of farmers' bills than it does under the *Crédit Agricole* arrangement, of which we shall still have to speak. The reason for American backwardness on this point is that agricultural credit is not yet sufficiently understood in the United States and, beyond this, that, in spite of the access given to it, on purely personal

grounds, to a few privileged men of substance, independently of their calling, the existing organisation of banking business places serious obstacles in the way.

Sufficient has already been said to indicate that there are some peculiar features about agricultural credit to differentiate it from other credit. Against this the elder Blanqui's famous saying is often quoted:—"Agricultural Credit? Well, that is just credit like any other." To a certain extent no doubt, that is true. And it answers all those specious, far-fetched pleas with which the basing of agricultural credit upon other foundations than those which are necessary for credit of all sorts is defended. There is far too much of this in the present day. It is thought that agricultural credit must be assigned special sources of supply, to be dressed up in some taking but deceptive hocus pocus garb. Credit is credit. And it can rest upon no other foundation than that of adequate security and responsibility acutely brought home. That is the one ruling principle for credit of every kind. However, in point of method agricultural credit differs from ordinary credit at more points than one.

In the first place it is, as a rule, required for a longer period. The farmer's money returns to him, generally speaking, once a year. Long term notes and bills are not favourites with bankers, at any rate for discounting purposes. But the farmer can agree only to long terms or the certainty of renewals—which are likewise not in favour with bankers. There is somewhat less difficulty on this score in one European country in which agricultural credit has secured a brilliant record,

that is, in Italy, where six months' bills are common. But even six months is only a short period for a farmer. In Italian co-operative banks an arrangement is very usual which admits of periodical renewals — a certain fixed part of the debt being repaid each time — which may carry the life of the bill on to two or three years. In banks which are based upon share capital this is rendered possible, as will still be shown, by the combination of a large mass of non-agricultural credit, ensuring quick returns, with a smaller volume of agricultural — the returns in which are slow. Under such arrangement the short commercial credit readily carries the long agricultural along with it. In any case some special arrangement will have to be resorted to, to meet the difficulty. And that would scarcely suit ordinary bankers.

But another, even more serious drawback, is the uncertainty of the farmer's return and his unwillingness, naturally consequent thereon, to pledge himself to a given date. In business of any volume certainty of repayment, when the bill becomes due, is imperative. This difficulty is, like the other, to be met only by a possibility of frequent renewals, which requires some special arrangement. For it would not conveniently fit in with present banking practice and it is not to be wondered at that bankers hesitate to accommodate themselves to such conditions.

However, these two difficulties mark only one point at which the new body will not fit into the old banking garment. In truth that body, as it has developed, is so unlike the one which the old coat was made for, that, to

be conveniently suited, it requires to have a new coat altogether of an entirely novel cut. We shall have to recognise the fact that the whole economic organisation of the farmer's world is markedly different from that of the commercial man's world and therefore demands different treatment.

It is sometimes contended, in opposition to this, that present banking arrangements might easily be so adjusted as to take in farmers. In support of this plea it is urged that, in the first place, not a few farmers in the United States actually are bankers and can therefore make the farmer's vocational peculiarities paid regard to by the banks, and, in the second, that the average size of farms is larger in the United States than it is in Continental Europe, namely 138 acres in the place of 20. The first named argument can in the best case carry us only a very short way. Its application is purely exceptional and does not remove all difficulties where it does take place. There are farmers who are at the same time also stockholders in banks; so it is quite true. But that does not mean that by such "personal union" the two callings of banking and farming are brought any nearer to one another, but simply that a certain number of farmers — which number cannot be large in proportion to the totality of the farming population — having accumulated a certain amount of wealth, have fixed upon bankshares as a profitable investment, just as doctors or lawyers might have done. Secretary Wilson in one of his latest reports remarks hereon: "One of the most notable outgrowths of savings by farmers is the very great multiplication of small

national banks in recent years." The farmer-banker no doubt has his say at the board meetings, provided that he happens to be a director. And he will obtain credit from his own bank, or from any other, according to the supposed measure of his wealth. But that is credit for his person, not for his calling. An approximation of the two callings might conceivably be facilitated by such conditions; but it has not yet taken place. Farmers' investments in bank shares have in fact carried farmers' money into the banks, not bankers' money into the farms. What prevails does not, to make a comparison, come near the formal arrangement which provides for the appointment of an agricultural "regent" on the Council of the Bank of France, with express instructions to see that the needs of Agriculture are done justice to.

The second plea, that of the larger size of American holdings, proves in fact nothing at all. For it is not the *size* of a farm, but its value,—or rather, in this relation, its productiveness—which determines its title to credit. The European twenty acres represent highly perfected intensive farming, where markets are handy and credit is organised, and where the value of the acre goes on increasing. It is interesting to note incidentally what a considerable difference it makes to a farm where credit is in that mobilised condition. M. Pierre Caziot, chief technical adviser to the French *Crédit Foncier*, in a book recently issued,¹ quotes in proof of this the instance of the district of the Brie, where credit is well organised and farmers accordingly

¹ Pierre Caziot, *La Valeur de la Terre en France*. Paris, 1914.

find a working capital of 800 francs per hectare sufficient for business purposes, being able to obtain the balance by credit, whereas in other districts they require about 1,500 francs. The American 138 acres represent for the most part slipshod extensive farming on a deteriorating soil. The profit of farming, as has already been observed, lies in the excess fertilisation, the excess labour and the excess yield, beyond a certain minimum point, which in the United States is not commonly exceeded. However, at best, the average size of holdings in the United States still only represents comparatively small farming. And to such farming banking presents itself as a matter of some difficulty. There are the banking customs, unfamiliar to our sons of the soil. There is the distance — which is, in the United States, in most cases greater than in Europe. Credit, to be of use, wants to be readily accessible, without loss of time. And there is, above all things, the difficulty of security. The security which the farmer has to offer is generally understood to be good. It is perhaps less good in the United States than in Europe, because there is more shifting among the farming population and greater difficulty in following up a migrant who may wish to conceal himself. But even so the security may be taken to be inherently good. However, unfortunately, it is not bankable in the banker's sense. Its precise value cannot be readily ascertained — except it be a matter of mortgage, which had for the present better be excluded from our consideration. And the security cannot be easily watched and controlled. If our farmer is to be able to raise

money upon it, his security will have to be put into a different shape, so as to become bankable. And for this a new contrivance will be needed.

That is the crucial point of the whole problem. Whoever contends that by means of "a few slight changes" the system of national, state and private banking may be so adapted as to suit the farmer's case, ignores the main difficulty to be grappled with, that is, the creation of some new bankable security within the farmer's reach. Adapt their systems as they will, the national, state and private banks still must necessarily remain bodies outside the farmer's economy, without sufficient power to control him, except it be by prejudicially cramping him in his business — bodies with interests distinct from and opposed to his. They cannot be expected to part with their money — which is really not theirs at all — to a borrower except in exchange for security that they can understand. And security that they can understand is just what the ordinary farmer, stand his moral worth ever so high, is not in a position to give. To provide convenient, accessible and sufficient credit for him accordingly some new path will have to be struck out, some new machinery to be devised.

One proof of this is to be found in the large resort, for want of proper banking facilities, practised in the United States to decidedly uneconomic methods of borrowing, of which the Southern "store liens" are no doubt one of the worst specimens. Under this system the lender of money provides the borrower with the necessary cash for raising his crop, which becomes

pledged to the lender, who in not a few cases dictates even what crop is to be raised and in what way, and to whom not only is the growing crop pledged, but with whom the borrower is also committed to carry on all such dealings in the way of buying and selling (at the lender's prices) as the lender may direct. If all things be taken into account, Mr. George K. Holmes' estimate of 40 per cent. as the average rate of interest paid upon such degrading credit is likely to prove rather an under than an over estimate. But apart from the rate paid for the money this form of credit, which, like the ancient Roman *nexum*, ends in servitude and peonage, is bound to stand fatally in the way of all advance to rational, up-to-date farming. There is less to be said against the mere crop lien, in the case of which the growing crops are offered as pledge. But after all even that is uneconomic, besides being cumbrous and in a sense derogatory. Nor yet can chattel mortgages be held a convenient method of providing for credit. Mortgage credit is also often abused — raised, because it is convenient, for purposes for which it is assuredly not legitimate, as burdening the borrower without bringing improvement to the land pledged. The favourite form of credit, however, seems to be that taken from dealers and merchants, sometimes in the shape of lean stock to be fattened for them, more frequently in the shape of time given for the payment of goods till after the harvest. Were farmers to calculate what such credit, which seems to them an act of pure kindness and generosity, really costs them, many of them would stand aghast at the unexpected discovery and

there is probably none who would not subscribe to the declaration of the want of a new kind of credit.

First attention has here been given to Agriculture, because that is the calling for which the necessity of more ample credit is most keenly and generally realised. Restoration of exhausted fertility, improvement of Agriculture to the point of assured remunerativeness, are felt as crying wants. However, Agriculture is not by any means the sole claimant by inherent right for more popularised credit. The very existence of such institutions as "Remedial Loan Societies," "Morris Banks," "A Bank Chain to kill Usury," and others which dispense small credit in a not strictly economic way, provide telling proof that there is a want to be met in a wider sphere. Such institutions are not intended to be purely charitable. They were designed to help lame dogs over stiles — not to give doles, but to make repayable advances to men and women who under ordinary circumstances could earn their own living but may be for the moment placed in a difficulty. However, they lend such aid under conditions which can scarcely fail to tend to the weakening of character and the breeding of improvidence. This may be predicated even of the "Morris banks," the scheme of which appears to have been suggested by the useful "Building and Loan Associations." However, the relief which they bring is at best limited. It does not lay a foundation for a lasting improvement, which may be depended upon. And they distinctly place two differing interests in opposition to one another — one of which, having the command of the money and a divi-

dend to earn, may very conceivably exploit the other. There are cases, of course, in which the schemes do good, in which a little timely help, rendered to a good man, will enable the latter to right himself. But in the majority of cases, so it is to be feared, the loss to the man himself, by enfeebling fibre and power of effort, and accustoming him to look outside himself for help, is likely to prove greater than the gain to be got out of the transaction. And that is certainly likely to be the result to the community.

There can be no question that outside the agricultural calling there are millions of men and women to whom access to reasonable, non-degrading credit at fair rates would be a material boon, down to the wage-earning working man who, as would appear at first glance, is not likely to have any occasion for productive credit, since his labour brings him in its proper return promptly in the shape of wages, on which he may live. However, he may have opportunities of economising by purchasing for cash and in large quantities, at a saving very much larger than the interest to be paid for a loan, what without the use of such money he would have to buy in small quantities, it may be for credit — shop credit. And reproduction of the money by economy is fully as legitimate an object for a loan as producing new values. And our working man may have belongings, to whom the purchase of tools, implements or raw material with hired money would open a prospect of self-supporting employment fully warranting the temporary interest to be charged. Our man may also nourish the ambition of rising in the

social scale. He may see his way to becoming a self employer, in his own or in some other calling. He will be independent then and able to earn more. He will be a more profitable citizen to his country. Reckon up the amount of distress that might be turned into prosperity if only people possessing the capacity and having the chance could readily obtain the temporary use of a little money, to enable them to take advantage of their opportunities! It must total up to a big sum. And have we not the small tradesman still with us, showing no sort of inclination to allow himself to be crowded out by the big emporium? Statistics demonstrate that, although large industry, which by its bigness forces itself most upon public attention, goes on steadily increasing and expanding, in some cases by phenomenal enlargements, small trade nevertheless manages by its side still successfully to hold its own.¹ To the small tradesman, working with little capital, and often bound to give credit to his own customers, more readily accessible credit for himself would in many cases be an enormous help. And there are people still old-fashioned enough in their views to hold that a country is all the happier, and likely to be the more prosperous, for possessing a strong, self-supporting middle class, people working for their own account, not all rich masters or dependent wage earners.

The United States are well supplied with banks of

¹ See S. N. O. North's observations in *Plans, Methods and Scope of the Twelfth Census of Manufactures*, tom. vii, and M. Yves Guyot's most interesting paper in the *Bulletin de l'Institut International de Statistique*, t. xvii (Copenhagen). The last named paper deals with the relative progress of large and small manufactures in France, Belgium, Denmark and the

all pretensions. Their system of free banking has filled their towns, down to very little ones, with banking shops of all kinds. However those banks, many as they are, and varied as they are, cannot possibly supply more than a mere fraction of all the demand that may conceivably arise, once the benefits of accessible credit are fully understood, owing to the inherent differences in their own ways and those of their would-be customers, and the absence of any common standard of value of security. Security there must be, or there can be no credit. However security of the kind at present recognised by bankers these people whom we are here thinking of have not got. There is accordingly a gulf between the two classes, which has thus far remained unbridged. What is required is a link to bring them into contact with one another, a bond to enable them to do business with one another. A mere setting up of new counters will not accomplish the object, because it leaves the two classes still apart, still unable to hitch into one another. So far as number of counters goes, there are probably enough already. What is wanted is the effecting of a union of interests, which will give the creditor a hold upon his debtor and enable him to appraise the debtor's financial value and discover the financial character of his proposed transaction, without damaging the borrower.

Such a link to unite interests, such a bridge to span the dividing chasm, has been found in Co-operation. It is Co-operation which has succeeded in bringing into United States. The general review is therefore sufficiently comprehensive.

effective contact money and the want of it — other people's money as well as that of the borrowers themselves viewed collectively; which has succeeded in appraising the financial trustworthiness of those in search of credit, and in making bankable a security which previously was only potential and latent. It has done this on a scale which to the newcomer appears downright fabulous, in a number of countries, practically speaking all countries of the European Continent, and more besides. For Co-operative Credit has begun to blossom modestly also in Canada, in Mauritius, in Japan, and above all things, much more lusciously, in British India, where, need being great and people generally honest — and still well attached to one another in what is a survival of the historic "village community" — it has made truly astounding strides and has developed with a rapidity hitherto not equalled anywhere else in the early stages. Natives who see its work have pronounced it "the greatest blessing that the Indian people have ever yet received."

What an enormous financial power Co-operative Credit, bringing welcome relief to husbandman and manufacturer, tradesman and wage earner, has grown to be may be gathered from the fact that of the eighteen thousand or so co-operative credit societies existing in Germany, less than a thousand alone — but by far the most important, in one Union — lend out annually something like a billion and a half of dollars.

The example of India shows among other things — which is an important fact to bear in mind — how adaptable Co-operative Credit is to most widely differ-

ing surroundings. We could not have one stereotyped method of its application, because that would crush all life out of the institution. In differing circumstances it must be able to assume different shapes. That is why it is so very important to get hold of the *principles* of the institution rather than of the mere methods of application, which have of late been rather too freely advertised, as if they embodied the spirit of the scheme. There must be variety of method, or all cases will not be met. And there can be such; for acceptance of the principle is fully consistent with a great variety of applications. You cannot in different countries follow one hard and fast rule. The mere fact that the laws bearing upon the matter are in various countries essentially different in their demands, precludes that. However, beyond that, every country has its own idiosyncracies, its own customs and usages, to which it is wedded; and according to its habits and traditions must be the method adopted. The consequence of adhering rigidly to another country's ways may be to some extent discerned in Belgium, where at the outset German rules were adopted down to the very letter. After a period of highly satisfactory development — for the movement was wanted — results are showing signs of giving way. In Italy M. Luzzatti adopted the German principle, but put it into an Italian garb, and the result has been steady and vigorous progress. Austria is so much alike to Germany in the habits of its people, that the original German system could scarcely fail to answer equally well, although on a reduced scale. But in Russia, for instance, very differ-

ent methods proved necessary, such as have not yet been carried to extreme perfection, but as promise in the end to answer. The most striking departure from the original methods, however, have proved needful in India, where of course co-operators find entirely novel circumstances and an entirely different population to deal with. Nevertheless in India even more than in other countries has co-operative credit shown itself exceedingly adaptable in its methods. Methods are really of secondary importance. The main point is, to adhere faithfully to the co-operative principle, without which history has shown that co-operative credit cannot be applied to good purpose. It produces tares instead of wheat — tares which show remarkably well in their luscious and exuberant green, but which at the end of the season yield no wholesome grain.

There is probably no other economic or financial power which has produced equally truly grandiose results for good. Co-operative credit has scattered riches in abundance over the field over which its horn of plenty has been poured out; and, while scattering riches, it has at the same time also improved and strengthened character, made virtues other than economic to blossom, sharpened wits and filled men's minds with new economic ideas, which in due course have borne rich fruit. In a word, it has proved an unspeakable benefit to those who have practised it and to the world around them. It is time that the United States took up this weapon of economic warfare, to fight with it Usury and Poverty and the other social and economic evils which spring from Need. It is in a manner new

to the population of the great republic and will therefore require to be carefully explained. At first sight it may appear in its demands to run counter to some ingrained American habits. Probably the fear of this is greater than the reality. The same apprehension has been entertained in almost every country into which co-operative credit has, all the same, eventually found its way, to prosper there. In every instance there was supposed to be "a lion in the way." However the people of the United States have already shown themselves not without their own peculiar co-operative proclivities. There is, so one should remember, a good deal of "Co-operation" practised in their country which does not square with the ideas of European co-operators, though, surely enough, it means "operating together"—for some object very distinctively of gain. However, to state one conspicuous example, the remarkable success of the "Building and Loan Associations," which in principle approach co-operative action, seems to indicate that there is at any rate a latent predisposition to co-operative methods wherever a need for the application of such comes to be realised. The United States have also, in point of fact, already possessed embryo co-operative credit societies of humble pretensions, of the organisation of which nothing is known to-day. They existed before the Civil War and came to an end with its outbreak—just as many little but promising co-operative concerns in France came to a sudden collapse with the outbreak of the Franco-German war. But it is known that in their humble way these little societies—a mere handful—proved dis-

tinently successful, with the exception of those of New York, which had dabbled in speculation and came to grief over it.

By reason of its results Co-operative Credit has ingratiated itself wherever it has gone. It is found worth cultivating and even pushing. Its methods are varied. Its principle is one. It is proposed to explain such principle in the succeeding chapter, and after that to set forth the application which it has found in various methods, in order that "all things being proved, that may be held fast which is good" and suitable to the new surroundings.

CHAPTER II

GENERAL PRINCIPLES OF CO-OPERATIVE CREDIT

THE task set to Co-operative Credit is — as has already been explained — to make potential security effective, in order that it may be brought to form an acceptable pledge for a lender to lend upon. That presupposes that the elements for such security are in existence, and it also suggests that there is practically no other security available, such as capitalists are now in the habit of recognising. As the most appropriate elements for creating a security we may set down trustworthiness of character, to justify the *fides* to be claimed; and a prospective employment which will justify the loan on financial grounds.

The story is told of one of our great contractors of the past generation, a deservedly most successful man, that he began life as a gauger, whose ability as well as his uprightness of character soon came to be recognised by those with whom he was brought into contact. He happened one day to be offered a highly promising contract, for which he possessed the ability, but not the means. For the necessary money he applied to some bankers, to whom he was personally well known. They were aware both of his ability and of his uprightness. But those qualities alone would not have disposed them to let him have the cash. However, he unfolded his

scheme. And, seeing that it was a good one, on those two grounds combined, which appeared to them to constitute a fair security, the bankers lent him what he wanted — and that was put to admirable use and honestly repaid.

Here we have the two main elements out of which co-operative security may be manufactured, to wit, trustworthiness of character and profitable employment of the loan. Given these — and made secure — the lender may count upon honest repayment, which is of course all that security is intended to assure. Character alone has become a favourite ground with bankers to lend upon. But they really as a rule know what the applicant for credit is “worth” and there is generally a substratum of substantiality to support character. It is on such ground that substantial farmers in the United States — whose ready command of bankers’ credit is sometimes quoted as disproving the affirmed necessity of a more popular form of credit — obtain their loan money. However, theirs is not the position of the great mass of farmers — and others — for whom a new kind of credit is demanded. These people may or may not be possessed of sufficient belongings to form a practicable “collateral.” But they are not in the same touch with bankers capable of lending, and could scarcely place themselves in such touch without paying more for such advantage than the advantage might be found worth.

Therefore it becomes necessary in their case — the case of millions — to provide some substitute for the personal knowledge here spoken of, to constitute a

bridge across the separating gulf, which will answer the same purpose as personal acquaintance with headquarters. That substitute is the creation of an intermediate body between the borrower and the original lender, financially strong enough by its collective guarantee to secure the latter; and, beyond this, in a position to exact proper employment and enforce prompt repayment to itself on the part of the former. The last named is the main security. The intermediate body is to be judge both of the propriety of the employment given to the loan and of the quality of the borrower and, having secured itself in these two essential respects, it is in its turn to become surety for the loan to the prime provider of the money.

There is a remarkably telling example of the efficacy of this interlinking of interests in banking history. Scotland has long taken prominent rank among banking countries by means of the excellence of its banking institutions, which have been mainly instrumental in reclaiming that country from what one of its own sons, the late H. Dunning Macleod, has called "the lowest state of barbarism," to "its present proud position," with farming, industry, shipping at the pitch of perfection. It is popularised credit, "Cash Credit," as it is called — a system very like the English "Overdraft," but "reduced to a much more regular system, and governed by its own methodical rules and appropriated to certain practical purposes," which has accomplished this.¹ Cash credit was not indeed orig-

¹ See Henry Dunning Macleod, *The Theory and Practice of Banking*. London, 1875.

inally introduced with anything like such an object in view. Scotch banks — of which there were at the time very few — were allowed the privilege of issuing an unlimited amount of bank notes. Early in the eighteenth century (beginning in 1704) the Bank of Scotland — which was the old leading bank — began the issue of one pound notes, for which in the ordinary run of business it could not then find adequate employment. To make the comparative glut of paper worse, in 1727 a rival bank was set up, in the Whig interest — the Bank of Scotland being Jacobite in its tendencies — with the same powers and an understood injunction to “cut out” the older bank as much as it could. To do this, the new institution, the Royal Bank of Scotland, hit upon the device of offering credit in its one pound notes to whoever would provide adequate security — mainly in the shape of sureties. Agencies were opened all over the kingdom and the banknotes were offered freely. From this new practice, which as a matter of course other banks soon copied, has sprung up that admirably organized, widely diffused system of Scotch banking, in which productive credit plays a leading part. However, it at the same time greatly stimulated deposit banking. It became a common practice, even among small men, to “keep a banker.” And the unlimited issue of notes, with regard to which fears might well have been entertained, was soon found to correct itself. Every bank naturally made it its aim, to place as many of its own notes as possible on the market, and at the same time to withdraw the notes of its rivals. So one bank came to col-

lect all the notes of the other banks that it could, and to present them for payment. There were fixed settling days for such exchanges, and there was one grand settling day, at Whitsuntide, when notes were often hard to be got by the public, until the great cashing exchange was completed. Thus competition effectually kept out what evils might have been looked for from unlimited issue. The great development of banking, which is peculiar to Scotland, and which serves alike to stimulate enterprise and to keep specie in the banks, is therefore to a very considerable extent distinctly traceable to Cash Credit.

The object of banks, when practising cash credit, being to place as much of their paper money in circulation as might be, without risk, they were bound — more particularly under the pressure of competition — to make things easy for intending borrowers — up to one point. Every one was to be made welcome — but there *must* in every case be adequate security. And as regards security, a bank could obviously not very well dabble in pledge credit, which might have proved exceedingly inconvenient to itself. It must have suretyship of such a kind that in the event of one man failing to repay, there would be another to be held responsible, so that in any case the value to be seized in satisfaction would take the shape of money. As respects the amount of security to be taken, Scotch bankers, being eminently practical men, did not allow themselves to be troubled with such fancies as are not a little in vogue at the present time, binding themselves to fixed mechanical conditions. They understood well enough

that in matters of credit every case must be judged by itself and on its own merits. Accordingly they asked in every case for just as many sureties as might to themselves appear called for — one, or two, or six, or more. There have been as many as ten. Scotch farmers and tradespeople, on the other hand, were far too canny to allow themselves to be frightened, as people nowadays appear disposed to be, by such precautions. They wanted the money; they knew after calculation that it would be worth their while to borrow it. And so they willingly provided the security required. The result is what we now see in Scotland. “The far-famed agriculture of the Lothians,” so writes Macleod, “the manufactures of Glasgow and Paisley, the unrivalled steamships of the Clyde, are its own proper children” (the children of Cash Credit). “A friend of mine,” so Mr. Fowler stated some time ago at the Bankers’ Institute, (in London) “was travelling in one of the southern counties of Scotland and there was pointed out to him a valley covered with beautiful farms. My friend was an Englishman, and his companion, who was a Scotchman, pointed down the valley and said: ‘That has all been done by the banks,’ intimating his strong opinion that but for the banking system of Scotland (the cash credit) the development of agriculture would be in its infancy compared to what it is now.”

When, something like twenty years ago, I lectured in a committee room of the British House of Commons upon co-operative banking, the late Mr. Beith, a Scotch member — and if I mistake not, at that time chairman

of the Glasgow Chamber of Commerce — patted me approvingly on the shoulder and said words to this effect: “You are right; I am a wealthy man now; it is a cash credit of £2,000 which I received when I was young, which has made me so; we want to do for those less well off than ourselves what has been done for us.”

In 1826, when the currency question was so prominently before the public in Great Britain that either House of Parliament appointed a Select Committee to inquire into it, those Committees reported specifically upon Cash Credit in the following way: — “There is one part of this system which is stated by all witnesses (and, in the opinion of the Committee, is very justly stated) to have had the best effects upon the people of Scotland, and particularly upon the middle and poorer classes of society, in producing and encouraging habits of frugality and industry. The practice referred to is that of cash credits . . . From the facility which these cash credits give to all the small transactions of the country, and from the opportunities which they afford to persons who begin business with little or no capital but their character, to employ profitably the minutest products of their industry, it cannot be doubted that the most important advantages are derived in the whole community . . . The witnesses whose evidence we have quoted stated that they calculated that the number of persons who had cash credits granted to them amounted to about 10,000 or 11,000, and, as the average number of securities to each bond might be taken as three, there were about

30,000 persons interested as securities, so that the total number of persons at that period interested in the system was at least 40,000. The banks were then supposed to be under engagements of that sort to the amount of £6,000,000, of which about two thirds were drawn out" . . . "the practical effect of which is," so says one witness quoted, "that the sureties do in a greater or less degree keep an attentive eye upon the future transactions and character of the person for whom they have thus pledged themselves; and it is perhaps difficult for those who are not intimately acquainted with it to conceive the moral check which is afforded upon the conduct of the members of a great trading community, who are thus directly interested in the integrity, prudence and success of each other. It rarely, indeed, if ever, happens that banks suffer loss by small cash advances." "This system," so the Report quoted continues, "has a great effect upon the moral habits of the people, because those who are securities feel an interest in watching over their conduct; and if they find that they are misconducting themselves, they become apprehensive of being brought into risk and loss from having become their sureties; and if they find they are so misconducting themselves, they withdraw the security." It is the linking together of close local and personal knowledge, which can discriminate between good cases and bad, deserving borrowers and undeserving, the joining of interest, of responsibility entered into, with the power of enforcing responsibility in others, which supply backbone to the system. There must be touch, power of control, knowledge of mem-

bers among themselves, and a common interest, which carries the security of the pledge given far beyond what a writ or a summons could do.

Now all this is excellent so far as it goes. But it applies in each case to one transaction only. As a rule it means that a man, in whose honesty and capacity for business his bondsmen have faith, obtains a standing overdraft, rather large in comparison with his immediate requirements, to set him up in business. That overdraft will run on, if the borrower conducts himself well, till he sees his way to throw off the burden, as an owner of land might throw off a mortgage debt. It does not correspond to the credit of a merchant, who draws a bill to take up money just as he wants it and gets rid of his debt as soon as the transaction is completed. There is no "quickness" about it — except that the account must not remain unused — no elasticity, no rapid reproductiveness. It is highly useful in its way. But it does not supply all that is wanted. And in many cases that are otherwise good it must remain impracticable. For it is not every one to whom bondsmen would be prepared to guarantee an overdraft, which might — just like possession of the money — prove a temptation to improvident employment. It is here presumed that we want to help smaller men than those who in Scotland benefit by cash credit, as well as men of the same standing; and also that we want to help them to occasional credit as well as to a standing overdraft. Cash credits for the most part — still, as in 1826 — run into \$1,000 to \$2,500. They mount up to considerably larger sums, but they practically never

descend below \$500, never at all below \$250. Such credits, practically for the endowment of a business, would help us only up to a limited point. Our smaller man may be perfectly safe to be trusted with a loan for a certain approved employment under conditions which make the employment of the loan itself a pledge for repayment, whereas it would be risky to guarantee him an overdraft. Overdrafts, practised avowedly for convenience — have under unsuitable circumstances of late years led to rather considerable losses. Besides, although as an overdraft the loan becomes in a manner permanent, the arrangement creates no institution of any assured endurance. While our borrower keeps his credit employed — keeping money passing in and out the banker's till — and otherwise conducts himself well, he is likely to retain it. But he remains dependent upon an institution outside himself — with, in addition, an interest different from his own — willing to help him, but willing to do so only in its own interest, for the purpose of benefiting, not him, but itself. That may go on or it may not. The arrangement does nothing in itself permanently to improve the borrower's position. And, of course, it is not "Co-operation"—it is profitseeking trading between one man and another.

Also, as I have been assured by one who at the time was probably the highest authority on the point, there is a certain stationariness about Scotch cash credit. It has rendered most valuable service. But it does not expand. Evidently in the more densely populated world of the present day, with its infinitely more varied,

multiplied and democratised enterprises, something more is needed.

That "something more" Co-operation supplies. It widens very perceptibly the area to be ministered to, taking in considerably increased numbers of potential beneficiaries, and it gets rid of the outside toll-taking institution with a distinct interest, and a will of its own (which may any day dictate discontinuance of business relations) and a desire for profit out of borrowers' pockets.

Under this system the supremely important element of watching the borrower, judging in each case of his qualifications and claims, and holding him to account, through neighbours, under whose eyes he lives, is retained, and is, indeed, carried further. The number of bondsmen and watchers is increased and the ring formed by them is doubled. The uses to which the credit may be put are multiplied and carried considerably lower. Scotch cash credit was never intended to serve for single transactions, such as the purchase of a cow, or an implement, or manure, or else a sewing machine for a poor woman, or raw material or tools for a craftsman. But these objects want to be provided for. It is the co-operative bank's aim to dive down low. Its object is, moreover, to become an institution of *members*, with only one, common, interest, a bank owned by the borrowers themselves, in which no profit will be made out of one man for another man's benefit, but a bank rendering a service at cost price, and an institution upon which members can depend, from which they will be entitled to claim a ser-

vice in their own right, so long as their case is good, and which cannot capriciously say them nay, as a banker or capitalist might.

That means, among other things that, while using the bank for credits, members must also at the same time have a steady eye to the continuous strengthening of its financial position, which in its turn means that members cannot be content with securing an occasional convenience out of it, but that in their own interest they must use it as a permanent means for their own financial betterment. To this end they must practise thrift as well as credit. For the bank is to grow steadily stronger. And so are members as well. Coming to it as non-capitalists, they are to make it their endeavour to emerge from it as in some sense capitalists.

A co-operative bank therefore means considerably more than a mere borrowing convenience. In return it yields far larger and more enduring benefits. The test of its quality, however, will be its capacity to make lending safe, to ensure repayment and businesslike dealing with money. Once it can do this, its progress may be taken as assured. The acquisition of the necessary funds can under such circumstances be at worst only a question of time. For capital studiously seeks safe employment. And capital is plentiful in the world.

The bank, though essentially "provident" in its aims, differs in this from friendly societies and also from Building and Loan Associations, that it does not propose simply to collect members' own contributions,

and deal them out again to members, but that it makes it its business to cater for its members in a much wider sphere, seeking to attract money for members' use from non-members as well as from members. Once it can prove that it deals with such money safely, there can be no question of the required cash flowing into its till, be it in the shape of specific loans or in that of deposits. Deposits, of course, are, as we shall still see, its most desirable resource, because deposits are likely to be cheapest and also steadiest, and interfering least with the bank's independence. They come from a good many more different pockets than do specific loans, and therefore are not likely to be withdrawn in a lump. Generally speaking, they make "good, lying money." Schulze-Delitzsch, who first introduced this kind of banking in Germany, would have his banks "sweep their several districts bare of all spare cash" — become the recognised depositing receptacle for their local sphere. M. Luzzatti, in Italy, likewise lays great stress upon the action of his banks as thrift institutions, dubbing them "perfected savings banks." And in the little banks of the Raiffeisen type systematic collection of savings deposits is made a main point.

But the success of all this obviously must be conditional upon the co-operative bank first proving that it is a *safe* institution to lend to, not so much because it has the joint liability of a large number of people to answer to creditors — that is rather its collateral than its effective security — as because it knows how in its dealings with money itself to avoid loss.

Such object is attainable by more methods than one,

to suit the several circumstances; but there are certain features common to all.

One such feature, of paramount importance, is this, that under all circumstances, whatever be the constitution or the size of the bank, its first interest must be to satisfy, not the borrower, but the lender of money.

It is quite rightly urged that, the bank avowedly being "a bank of borrowers," borrowers' interest must always stand first. So it must. However the borrowers' first interest is that they should obtain the money which they want, and obtain it honestly, as a matter of business, not of charity. There are not a few people who try to wriggle out of this. They grudge the liability; they grudge the shares; they grudge the trouble; and they grudge the submission to inspection. The ripe fruit is just to drop into their lap. Hence, in addition to a variety of fancy schemes, which of course never work, we have those quite un-co-operative elaborations which place taxpayers' and charitable people's money at the service of professing co-operative banks, to be distributed like heaven-sent "manna," under which permanent good can never be achieved. Credit will do good when it is honestly purchased and paid for. And the proper price for credit is security. The better the security, the more certain and the cheaper will be the supply of money. Our object, as has already been explained, is to convert dormant, potential security — such as the money market cannot now accept, but which is all that we have to offer — into effective security, which it can. That is not to be done without trouble and liability. Such trouble and liabil-

ity should not be grudged. We have to pay the price, and should be wrong in making wry faces over it. To a co-operator it is pitiful to see how willing some people are, for the sake of a little unpurchased credit, which may cease any moment, and which produces no lasting good, to sacrifice all the more valuable benefits of co-operation, above all things their independence and the permanence of a self-supporting institution of their own.

This being premised, the common rules applying to co-operative banks of all descriptions may be summed up as follows. There must, in the first place, be a collective liability of all members. As against claimants these must present a united front. That does not mean that the liability must necessarily be unlimited, all for one and one for all; for it may very well be otherwise; but it means that whatsoever money is raised is raised and answered for by the bank as a whole. Distribution of liability must be left to go on inside.

The foundation so laid will, furthermore, have to be steadily and systematically strengthened — whether there be shares or no — by regular additions to the bank's capital in the shape, it may be, of increased share capital or, in any case, of a growing reserve fund. Such additions should be the first consideration in making up the annual balance sheet. Dividend must stand only second. There are co-operative banks which have rapidly grown strong by designedly charging members, with the members' consent, in early years a rather higher rate of interest on loans than would have been strictly necessary, for the sake of creating a fairly sub-

stantial reserve fund, which places a bank above danger and greatly increases confidence in it. That temporary trifling sacrifice has well repaid itself. If the bank is at all large, there will in course of time have to be several reserve funds, to provide for distinct risks, such as depreciation. But one main reserve fund, kept steadily growing, there will in any case have to be.

It may be well at this point to call attention to the fact, how much, apart from strengthening the bank by an immediate capitalist benefit, gathering up a substantial reserve fund will do to ensure permanence to the institution, by keeping members in it. The reserve fund is the bank's collective property — until dissolution. And a good many co-operative banks have adopted the rule that even in the event of dissolution reserve shall not be shared out. That does a great deal to keep members in the bank — and the more, the larger the reserve fund is, from which members in the bank derive benefit which they would forego by going out. And members staying in means that the bank will endure.

Although founders of a bank need not be overtimid about beginning business with only a small number of members, other things being equal — mutual touch and the possibility of effective control being assured — a large number of members is a distinct advantage.

Another useful means of attaching members to their bank is, to ask of them an entrance fee, which should be moderate, and will of course be irrecoverable. Raiffeisen did not want an entrance fee, because he was opposed to taxing incoming members — whom mere pov-

erty was not to keep out — at all. However entrance fees will provide for minor wants, especially in a bank newly formed and still in a stage of financial weakness; and, being irrecoverable, they will help to keep members in the bank.

In borrowing money the bank will do well to bargain in respect of the funds borrowed for a lengthened period, although of course it must avoid burdening itself with long term loans beyond what it is likely to be able to employ. But it is a great convenience to have some money that may be depended upon for a good long time. In respect of deposits, however strong the temptation may be to do so, on prudential ground, it is not good policy to insist too much upon long notice — except that be by arrangement, a triflingly higher rate of interest being allowed upon time deposits. Whether notice be stipulated for or not, it is good policy to waive that condition as much as is possible in practice. Nothing helps a savings bank so much to collect deposits as a knowledge among depositors that it will be prepared to repay them on demand.

In dealing with its money—borrowed money it will be — a co-operative bank will above all things have to study absolute safety. It cannot afford to run risks. It is there to eliminate middleman's profit for the benefit of its members, but not to earn a profit either for them individually or for itself collectively. There is great danger in profitseeking for profit's sake, as not a few co-operative banks have been made to discover. The benefit that the bank is designed to yield is that of a useful, cheap and ever accessible service. Accord-

ingly it is a common rule in all co-operative banks that any employment which involves risk must be altogether avoided, no matter whether it be in loans to members or in other investment of bank money.

Thus, in the first place, the bank must make sure that it has *primâ facie* trustworthy customers to deal with. As a general rule, lending must be confined to members. It would not however do to press such limitation unduly, in view of this not unlikely occurrence. The bank may have more money on hand than it knows how to employ in loans to members. Such cases have occurred and are likely to occur again, however carefully they be guarded against. In Germany, about 1895, there was a glut of money unasked for. Such money cannot be kept idle without loss of interest, such as the bank ought to desire to avoid. Under such circumstances a bank might refuse to take further deposits or might even pay off some of those that it holds, in order to ease itself. However that is apt to unsettle business and is not invariably acceptable to members. Under such circumstances it ought to be permissible to place some of the surplus money, should the opportunity offer, in an exceptional way, in the shape of loans even to non-member institutions or capitalists of undoubted solvency. The ordinary current loan business, which is what the bank was formed for, however, should be confined to members only. Those members must be, not admitted indiscriminately, upon the principle "the more the merrier." The more there are, no doubt, the more business there is likely to be, and the better, accordingly, may the bank fare finan-

cially. However business for business' sake is not what the bank was formed for. It is to serve members, and to do so by studying security. And, in the words of M. Luzzatti, the "father" of the successful co-operative credit movement in Italy, "the best security of a co-operative bank is the moral worth of its members." It is better to have a smaller number of trustworthy members than a large one of men who are not trustworthy. The bank should therefore exercise a reasonable amount of care in the admission of members.

The members being selected, it goes without saying that the government of the bank must be thoroughly democratic, "*of the members, by the members, for the members.*" The supreme authority must in any case be vested in the general meeting. The governing bodies should be freely elected, without respect of person and capital should have no say in the determination of matters. There must be "one man one vote." The society is a union, not of capitals, but of members, whose capital payment is not an investment in the ordinary sense — it cannot be sold — but a stake. The dividend on capital must be limited to a moderate rate. If more were to be earned than will pay the interest fixed for share capital, it ought — as in the co-operative store — to go to "business," in proportion to business done. That will mean, not a gain to the receiver, but a restitution of what was (for safety's sake) first taken in excess of actual cost. The bank is there to study cheapness in loaning for its members and if at the end of the year there should be more over than is necessary for main-

taining a good balance, with an allowance for reserve, that is a proof that too high interest has been charged; and, if there is a prospect of the same state of things continuing, rather should interest be lowered than dividend paid.

In its fixing of rates of interest the bank can of course not commit itself to a hard and fast rule, as is sometimes demanded. It is there to provide cheap money — if it can. But its first duty is to make ends meet. If it have active business, it will be able to fix its rate low and work with a narrow margin. Should its business be slack, the margin between interest charged and interest allowed may have to be considerable. In a bank peculiarly situated in Italy I have found as much as 2 per cent. margin. The bank will in every case have to cut its coat according to its cloth.

The bank being formed to render a service, it is its business to inquire beforehand if, in the case of a loan applied for, a service will really be rendered. That means that it must know something about the employment of the loan. For it is not there to encourage indiscriminate running into debt, but distinctly only to favour such going into debt as is justifiable as promising a remunerative return. In some banks, as will be shown, the scrutiny of the object of a loan will have to be carried to an extreme point and the borrower will have to be rigorously tied down to that employment. In such cases the employment of the loan itself becomes a security for the loan. In any case sufficient should be known to satisfy the bank that the employment will be a good one, ensuring either profit-

able production or else economy, and that it is appropriate to the particular borrower. In the event of any loan being wrongly employed, whatever punitive resources the bank retain in its hand, it will in any case be able to safeguard itself for the future by refusing the peccant borrower any further credit. But it is as well to make sure of being on the right side from the outset.

That is, however, not enough. As the bank pledges itself specifically to the original provider of the money, so it will have to take specific security from its borrowing member beyond what is provided for by the general precautions already mentioned.

Now the point of security raises rather a wide question. What is the best form of security to take? We are so used to pledge credit that we almost instinctively turn first to such securities as mortgages, chattel mortgages or crop liens, which provide a visible object such as in case of default may be seized in satisfaction. However by common consent these would be most inconvenient securities for a *bank* to hold, more particularly a co-operative bank, which is differentiated from other banks by dealing as a rule with a much smaller capital. Borrowers may after all default; and then what is the bank to do with its white elephant of a pledge? A co-operative bank in Cannstadt in Germany lent money on a theatre. It had to foreclose, and the theatre was a burden on its hands. Another co-operative bank in the South of Germany lent money on a watermill. The mill was carried away by a flood — and where was its security? There are cases in

which the matter practically reduces itself to Hobson's choice. There must be adequate security of some sort; and the bank will have to accept from the borrower whatever he may have to offer. However it has long since become the common rule to avoid pledges of all sorts—more particularly mortgages, as locking up capital—and if they must be taken, to take them only as collateral security. The regulation form of security should be personal.

This is more than a question merely of convenience. Pledge credit, in the late Léon Say's words, denotes "the infancy of credit." It represents a quite elementary form of credit, in a stage of undeveloped resources. We ought to have grown sufficiently beyond that stage to want to "cast away childish things." Pledge credit necessarily tends to weaken the sense of responsibility. The borrower is tempted to comfort himself with the reflection that, whether he repay at the promised time or not, there is the pledge! The lender accordingly is secured. Therefore it enfeebles the sense of obligation and trains away from businesslike dealing, which it is essential should be as much as possible pressed home, more particularly upon such *clientèle* as the co-operative bank is likely to possess, coming newly to the practice of credit and wanting to be taught. Certainly the pledge weakens the sense of being bound to a particular date, which is one of the most important lessons of credit to inculcate. For a bank whose borrowers do not repay promptly, which is therefore left in doubt as to when its money will come in, is on the high road to insolvency. Furthermore the pledge potentially places

a useful object out of use. That constitutes a tax upon the borrower. Personal credit is free from all these defects. It takes nothing away from any one; it does not inconvenience the lender in any way; it decidedly quickens the sense of responsibility, with respect to time as otherwise; and it automatically educates the borrower to businesslike practices. It sharpens his wits, it teaches him to calculate before he stakes, it forces him to reckon up gain and loss and, in the place of saddling the lender with an inconvenient encumbrance, it may provide him with a security which may in case of need be employed to provide fresh money. That is, if the record of the loan take the shape of a promissory note, a bill of exchange or an acceptance, which three forms, being alike discountable, are the most convenient from the point of view of the bank. Discounting, to raise fresh money, may indeed become a source of gain to the bank, whose endorsement is likely to command a lower rate of discount than itself charged to its member. In any case personal credit is desirable.

The acceptance of personal security does not of course necessarily mean that the borrower is to be trusted on his own undertaking only to repay. Cases in which this is admissible will occur. But they are likely — and ought — to be few. As a rule some other security will have to be asked for — were it only to train members to a practice which for many of them is likely to be novel. And that security had much the best take the shape of suretyship — suretyship proportioned to the loan and to the borrower's supposed trustworthiness. On this point it is impossible to lay down

any hard and fast rule, say so many sureties. One man may want more backing than another, and one surety may be worth half a dozen others. Credit is a delicate commodity, which wants to be delicately handled. Every case will require to be judged by itself. You cannot lay it down that there shall be one, or two, or three signatures. Under Scotch cash credit there have been as many as ten. That is an extreme case. But in any case the security will have to be fixed according to the amount of risk incurred.

It is a mistake to suppose that the sureties must needs be members of the bank. The bank should *give* only to members; it may *take* from any one. In truth, a surety—being first approved, of course—not being a member of the bank, rather tends to strengthen the bank, as buttressing it with outside support. The one thing needful is that the surety be sufficient for its purpose, and that its willingness to serve should be ascertained beyond doubt.

There is a practice in use in some parts of privately appraising members — borrowers or sureties — according to what is in America known as “financial rating.” In some cases such appraisalment is not private, but “Smith” knows that he is set down as good for \$1,000, “Jones” for \$5,000, and “Brown” for \$20,000 — which means that, as a matter of convenience, the manager of the bank is authorised to lend to each, without asking for further security, up to the sum named. The three may combine for one or other of them to raise \$26,000 on the three signatures. This is not a principle which it is advisable to rely upon exclusively. In

large banks a financial rating is a help for the manager. But it represents a departure from the co-operative rule of watching over the employment of the money borrowed. Its use, as above instanced, weakens control, such as in a co-operative bank — which is bound to supply in “elbow grease” what it cannot, on the ground of the comparative exiguity of its means, supply in money — it is of the utmost importance should be kept active; and it is apt to weaken that peculiar personal interest and identification of every member with the bank as a whole, on which the success of a co-operative bank greatly depends. Indeed, in such a society everything which tends to mechanical routine is to be deprecated.

Provided that all ordinary business precautions have been observed, the sureties referred to act in the case of a co-operative bank precisely in the same way that they would do under Scotch cash credit, that is to say, they keep the borrower under control and see, in their own interest, that he fulfils his duty; and their action has the same beneficent educating and restraining effect.

But to make sure of the observance of the prescribed precautions it is necessary — and the common practice — to maintain a system of control which is as searching as it is self-regulating. In the first place there is what the late Sir Robert Morier with good reason laid particular stress upon, namely, a “maximum of publicity.” There is nothing in these banks which wants to be kept secret — except the deposit account of each member, about which not a hint nor

a whisper must get abroad. That may very well be done. There are very humble people in some of these banks, who would not wish the amount of their deposits to be disclosed. In English trustee savings banks we have had workingmen depositors shrinking back and leaving the bank when they discovered that their employers were among the trustees or managers. Apart from the deposit accounts, however, the more public everything is, the better will the bank fare. Publicity acts like oxygen in the atmosphere, to keep things sweet and clean. Mutual watching and knowledge of one another and of all goings on are necessary as one of the substitutes resorted to for the cash which is more plentiful in capitalist institutions and there plays the chief rôle. The security which the bank offers to its lenders is the certainty that money loaned will be repaid. That is the meaning of "security" in any case. The capitalist gives it by pledging something salable of higher value than his own debt. The non-capitalist cannot provide such article. But he can provide something which in his own case is equally effective — the pressure which his classmates and comrades, who make themselves liable for his debt, who have him under their eye, and whose good opinion he is bound to desire to retain, exercise upon the borrower. Such security has been found effective in all grades of the social scale. It is dependent for its effectiveness upon control. And control begins with the knowledge of what the man is committed to with his bank, and, more generally, in what way the bank's money is employed.

However, to have its full effect, the cult of publicity

should, in its bolder features, be carried beyond the limits of the society itself. The bank lives upon the confidence that it can inspire in others. It wants money from outside. Hence the outside public should be made aware how its affairs stand at any time. It does not follow that every detail should be made public, that the public should be made to know who has borrowed and who has not. But the balance sheet ought to be allowed to become public property. There is nothing to secure confidence like continuous good management, which can be proclaimed only by the balance sheet made public. The great Co-operative People's Bank of Milan, which now has a share capital of hundreds of thousands, began with only \$140. It secured the confidence of the public by posting its daily balance sheet outside its humble office every night, for the public to see. And those who came to scoff remained to applaud, when they had satisfied themselves how well the bank was doing and to advertise it. The successful co-operative bank of Mentone, which likewise began in a humble way, at a time of local panic, after the breakdown of other local banks, at once gained public confidence in the same way.

That bank, by the way, teaches another useful lesson, which, after the bank crashes in Australia, it was thought might have to be taken advantage of in that country. After the smashes that had occurred in Mentone at the time all confidence in banks as an institution seemed gone. It is doubtful if a new capitalist bank opening its doors at that time would have found custom. But here was a bank of the customers

themselves, owned by them, managed by them, answerable to them, dealing with their own money! Under such circumstances comparative poverty achieved readily what wealth might have failed to accomplish. The competence of the officers chosen had not a little to answer for in the success. But the main reason was the bank's co-operative character, with everything open and ascertainable by those who used it and whose money was at stake.

The entire structure of a co-operative bank rests upon the foundation of effective control, which is not possible without all facts being placed within reach of inquirers. The affairs of the bank are administered by an elected Committee. But that committee is effectively controlled by a Council of Inspection or Supervision — which under the German law, now accepted as the best for the purpose, really represents, so to put it, the “Board” of a Company, the Managing Committee standing, as the executive organ, for the administering “Manager.” We have here not a question of presumable dishonesty to deal with — although dishonesty naturally has to be guarded against. However the Committee is human; it acts among neighbours; its members are likely to have sympathetic chords in their hearts. Should they not stretch a point to oblige their neighbour? They might be tempted to do so. But there is the Council to check their doings — the Council, which in course of time, will report to the General Meeting and may haul the Committee over the coals at any time. The Committee's answer to its applicant will accordingly be: — “My dear fellow, we

cannot stretch the point; the Council will not let us." Or it may be that a salaried member of the Committee, to whom his small honorarium is of consequence, is threatened by an importunate but questionable applicant: "I shall not vote for your re-election." Once more, his answer will be that he cannot give way. Above the Council of course there is the General Meeting, which is lord supreme in its own domain, and which can, obviously, adjudicate upon cases specially referred to it. And it is rightly usual now — indeed some Governments have very properly made it obligatory — to supplement the checking of the Council of Inspection — which brings *local* knowledge, knowledge of the members, to its task, by a further checking by a *skilled* accountant, trained to this particular work, who knows more about general banking and whose assistance in the matter has been found highly useful. Special consideration will still be given to this point.

The points here enumerated practically sum up the structure of a co-operative bank or credit society in its general features. There will have to be selection of members, to ensure *primâ facie* trustworthiness; discrimination in respect of loans; adequate security for such; strictness in exacting observance of rules; responsibility divided down so as to leave no act unanswered for; and such responsibility brought home to every one by searching control. All risk must be avoided on principle. Wherever long term credit is required, as in agriculture — supposing that the bank is based upon shares, that is, upon a rapid circulation of money in general — there ought certainly to be a

mingling of callings, so as to produce a balance of demand and supply, which is an advantage in any case. Some continental Governments in Europe, thinking more of politics than of co-operative economics, have made it a practice to favour the formation of particular banks for particular callings — agriculture, and also distinctive industrial trades. However the result has not been universally successful. And it stands to reason, on economic grounds. Men of one calling are likely to require their money all at the same time and to want to pay it back also all at the same time — which means that at one season the bank will be overburdened with cash, at another at its wit's end to provide for demands coming crowding in. Under such conditions good business is impossible. The more differing elements are brought in, to dovetail into one another, not only the more will business tend to balance itself, the wants of one calling coinciding with the superfluity of the other, but the broader also will be the foundation, the more assured accordingly the stability of the bank.

Of course the little bank, with its more or less amateur managers, will have to make it a rule to confine itself strictly to its own proper business, for which it is organised. The temptation may be great sometimes to step outside, in order to engage in more remunerative business. But there is danger in this. A spade will not carve a joint, nor will a carving knife dig a trench. It may be well that attention should be called to this, as likely to reassure joint stock and private banks on the score of possible rivalry. Co-operative banks will have their own sphere to work in,

beyond which they should not go — and would go only at their own peril. The late Léon d'Andrimont, the "father" of the Belgian co-operative banking movement, wanted to tie his co-operative bank down even to a limit in amount of money loaned.

If all the rules here laid down are properly observed, in the words of the Hon. Maggiorino Ferraris, late Italian Minister of Posts and Telegraphs, who has long been one of the recognised leaders of the co-operative credit movement in Italy, "it is inconceivable how a People's Bank could go wrong."

The several models upon which such a bank may be moulded will be discussed in the succeeding chapters.

CHAPTER III

CO-OPERATIVE BANKS BASED UPON SHARE CAPITAL

THE type of organisation suited for a co-operative bank likely at first blush to commend itself most to American and English pioneers is that which makes such institution most nearly resemble a joint stock company. We can all understand shares. There must be working capital. And we can understand share capital being remunerated by dividend. A co-operative society will of course have to be careful to eliminate from its constitution those particular features of joint stock practice which distinctly militate against co-operative principle. Thus there will have to be a limitation of interest payable on capital. For a co-operative society, being a union of members, not of capitals, employs capital only as a hired instrument of business. Voting in it will have to be, not by shares, but by members, whatever their holdings may be. There may furthermore be dividend on business, corresponding to that which is allowed on purchase in a co-operative store. Apart from this, transactions are naturally likely to be generally smaller — and it may be less varied — than in a joint stock company, which of course — being in quest of profit — lays itself out for a maximum of business, whereas the co-operative bank studies merely to

accommodate its members with such services as they may require and should restrict itself to such. And, above all things, all operations involving any risk whatever will have to be rigorously excluded from the business programme. For the governing body are not private venturers, like ordinary bankers, but purely trustees. However the general character of the work done will be very similar, as the American Commission has discerned — it will be business — pure business, business in money, reliance for the supply of such material being based upon deposits and for liquidity upon quick returns.

Wherever there is a tolerable quantity of money passing through the hands of members, and where business principles are fairly well understood, there could be no more appropriate organisation than that suggested. And such organisation possesses some distinct advantages, which must be apparent to every one. A bank so constituted will be able to extend its district at pleasure, as circumstances may dictate; smallness is by no means essential to its success. It will furthermore be at liberty to impose upon its members at will either unlimited or else limited liability, just as they may prefer — liability, if limited, limited down to the very face value of the share taken up, if that be desired. There will be no occasion to forbid membership in other similar organisations. There will have to be general control, of course; but the bank will be less tied down to minutely meticulous investigations and precautions in its dealings with members — as to the disclosing of the object of each loan, as to having such

object approved, and having the employment closely watched, with penalties prescribed for non-observance — than a bank based purely upon unlimited liability. For it is already in possession of all that constitutes the member's money liability. There will have to be strictness with regard to time limits. Obviously that is quite essential. But otherwise the bank will be little hampered by superprecautionary considerations. It is there to do business, and the best business that it can, for its members. Even so its program need not exclude aims of what by co-operators is considered a higher order. The collaboration of so many people with more or less identical interests, linked together by the most potent of bonds, the common interest of the pocket, discussing business matters in common, where mind may be expected to sharpen mind, will be sure to act as a stimulus to intelligence and character. Such collective labour may also be counted upon to open new avenues for common action, likely to be for the common benefit. Italian banks of this type have made a great point of studying public interests by support given, with the help of their small surpluses, to enterprises of common utility — such as education, co-operation on other ground and the like. And the impetus which German banks of this order have imparted to the use of cheques, clearing, information among themselves respecting doubtful borrowers and widely distributed cashing of bills and cheques — let alone common inspection, all being methods of education — must count for not a little in their catalogue of merits as public institutions. But in substance the

aim of these banks will be economic —to produce better business conditions for their adherents, by keeping a money counter perpetually open to them, at which they have a *right*, on certain conditions, to demand credit; by diverting the middleman banker's profit into borrowers' own pockets; and by putting all banking business into a more popular shape, intelligible to the untrained.

Now the first point in connection with the organisation of such a society to claim consideration is its proposed means of obtaining money. The society is to issue shares, which of course will produce something. But they will not produce nearly enough for the purposes of the intended establishment which, moreover — so it will be well to remember — is not to be a Friendly Society or Building and Loan Association, dealing out to borrowers only its members' own money, but a "bank," operating as much as can be with capital borrowed from the outside. Its own small share capital is from the outset, in Léon Say's words, designed only as a "capital of guarantee," to stand the racket of loss, —an instrument of guarantee to be offered to lenders as a security in case of any deficiency, which deficiency in this way will fall, not upon the lender, but upon the borrower. The main object of such capital is to attract other money. If that is so in capitalist banks, as has been already explained, how much greater need is there of such magnetic action in a bank formed with only little money, because its members are not capitalists, to enable them to become so. There is no need to apprehend that under such conditions borrowed capi-

tal will not be forthcoming — supposing the bank to be well managed. The allurements which, on ground then still new and wholly unexplored, the earliest pioneers of the movement held out to money, have proved not merely sufficient but excessive. They have led to capitalist abuses — such as exorbitant dividends, dealing in shares, excessive credits, improper business. “We have succeeded too well,” so exclaimed M. Luzzatti at a Paris congress, only twenty-five years after he had started his first bank in Italy. And he has confessed to me that at the outset he did not limit interest on share capital, because it appeared to him very problematical whether there would be any surplus to divide at all. It was the excess command of money brought in, owing to such overliberal treatment, which nearly wrecked the Milan People’s Bank in 1873, tempting it upon the path of speculation, and which has quite wrecked some other banks less well nerved to resist the temptation. Some of Schulze’s banks have in past years actually run rank riot in the matter of dividend. Money is not so churlishly diffident as had been supposed. It is apt indeed to hold back distrustfully at first. Co-operative credit is to it what the newly painted gate is to the cow. But show it that its money will be safe, and it will come in readily enough to the tune of an only moderate dividend. It is important that money should not be over-remunerated, in order that there should not be two interests in the bank — the lender’s and the borrower’s, with a temptation for the former to exploit the latter. The banks are intended to be *borrowers’* banks.

But, though money should not be overpetted — neither loan money nor share money — it is very important that there should be some belonging to the bank and that that “some” should go on steadily increasing. The accumulation of share capital beyond the first stake cannot be enforced. But it should be systematically encouraged. Once members are brought to take an interest in the bank, regarding it, not as a mere casual convenience, but as their own useful establishment, they will also be brought to see that their share capital, which will attract at least five dollars of loan money to every one dollar of their own, represents a very valuable and fructifying stake. A bank strong in share capital will be able to command all the more loan capital in proportion. On the other hand a reserve fund may be forced upward by systematic nursing. And a dollar in the reserve will be as valuable as a money getting asset as a dollar in shares. Twenty or twenty-five per cent. of every annual surplus should accordingly be appropriated to reserve under a standing rule, and no maximum should be fixed at any rate proportioned to the share capital. For it is not the amount of share capital which comes into account in determining the proper figure for the reserve fund, but the volume of outstanding liabilities which there may be to meet. In joint stock companies the share capital is accepted as the determining factor, for convenience sake. And in a joint stock company also, which is a union of capitals, such practice will pass muster, because the share capital there constitutes really the ruling factor. But in a co-operative society the share capital

is in nine cases out of ten bound to be small only, and what the bank subsists upon is, not its capital, but its business. The reserve fund in consequence becomes of all the greater importance. The best co-operative banks are those which have reserve funds in excess — it may be considerably in excess — of their share capital. The larger the reserve fund, the more independent will the bank be, because that reserve fund is safe in its hands and cannot be withdrawn.

Reverting to the original question, that of the obtainment of money, there is really nothing to add to what has already been stated on that point in the preceding chapter. The source to be favoured above all others is that of deposits, be they what are called savings deposits or be they taken in larger sums for temporary investment, in which latter case they will probably be time deposits, with a rate of interest graduated according to the length of time stipulated for notice. And the deposit counter should be open to all, whether members or not. What Mr. Burghardt du Bois says in a paper contributed to the *Bulletin of the Department of Labor* specifically with regard to negro states, commending the studied thrift which enables negroes to become small landowners, will probably bear a much wider application: "Larger facilities and encouragements for saving in the country districts and small towns of the South could easily strengthen and greatly extend this spirit of thrift." Co-operative banks will come in very handy for such purposes. They generally manage to make themselves appreciated as receptacles for savings, because they keep the money col-

lected in its district and show the public that that money goes to a good and productive purpose that can be understood. A society properly constituted would also be entitled to issue debentures. But it is rather a ticklish thing for a society of this sort to bind itself to long time loans for any large sum. Deposits are under its own control. They may in case of need be repaid or reduced, or even refused. Rediscounts by the bank, which must also be taken into account as a possible source of cash, will only be resorted to when money is really required. The bank itself will be able to regulate that. But it is a risky business to saddle oneself with money on which interest has to be paid for a long time. Debentures are best reserved for mortgage loans. Once more, in this respect a co-operative bank is placed in a different position from a capitalist bank—a position which requires the exercise of caution. The supply of cash will have to be kept under effective control.

To return to the question of shares—that suggests the two points: 1. of the value which is to be given to the share and 2. of the liability to be made to attach to it. In respect of liability the public in the United States finds itself in a position favourable, in comparison with that of people in the United Kingdom, Italy, France and western Europe generally, inasmuch as it is accustomed to liability exceeding the face value of the share. This may prove a very valuable factor to employ, for it improves credit. When co-operative banks were first introduced—in Germany—limited liability was wholly unknown and unrecognised by the law.

As a matter of course, accordingly, co-operative banks had to be registered with unlimited liability, and on the ground of certain advantages which it carries with it such form of liability has grown dear to German — and in a somewhat lesser degree to Austrian — credit co-operators. On the face of it, it is calculated to command more substantial credit than the share alone with limited liability. The measure in which the unpaid-up liability will be responded to will indeed have to be taken into account as uncertain, and accordingly in its valuation a certain discount will have to be taken off its face value. However, the main object of excess liability is not, to stand for a certain sum which may eventually have to be paid up, but to act as a compelling check upon those who ask for credit, to exercise scrupulous care in dealing with the money, in other words, as an additional means of securing the lender. With all this it labours under several disadvantages.

In the first place it affects the question of dividend on share capital, which under the co-operative principle ought to be narrowly limited, so as not to include gain but merely the market value of the money. Now, under unlimited liability, or in fact under any liability in excess of the actual value of the share, there is a special liability attached to the share, in respect of the risk incurred, which ought in fairness to be paid for, just as insurance is. If in a bank with strictly limited liability the shareholder receives 5 per cent. on his shares, that is just the hire for his money. If in an unlimited liability bank he is allowed 7 or 10 per cent., the excess amount may represent fair value for the risk

which he incurs. That is, however, a quantity very difficult to determine, and the shareholder who receives the higher rate is likely to find himself saddled with the odium of being a grabber — at the borrower's expense. And such example may very well serve as an encouragement to others, who have not the same excuse, to take more dividend than is in fairness allowable.

Next, in a bank based upon shares, the significance of unlimited liability is apt not to be adequately realised. Business goes on in it in its routine way, as if there were no question of extra liability. Suddenly there comes a smash. People have just been a little careless, and now they stand aghast at the call unexpectedly made upon them! Such cases have recently occurred in the Union presided over — until his death — by the late Dr. Haas, in Germany. And the shock produced — also the damage — was great. In a less tragic way the point was very clearly brought under notice in Belgium a considerable time ago. Under Léon d'Andrimont's guidance the *banques populaires* there began, in faithful imitation of their German model, with unlimited liability. Nearly from the outset, however, there has been a tendency towards limited liability, which is in truth more in keeping with the customs of the country. So, a long time ago, it was proposed in one of these banks to limit liability to twenty-five times the amount of the share. "Oh, dear no," so members cried out in protest, "that would be far more than we can answer for." In their innocence they took the intended reduction for an expansion; they had in fact failed to realise that thus far they

had been liable up to the hilt. In a bank based entirely, or mainly, upon unlimited liability people understand that they are liable with all that they possess and they act accordingly, that is, with extra caution — which is just what unlimited liability was adopted for. Under it, as a realised engagement, people inquire and check, taking nothing for granted, and so they keep the concern safe. Where the main resource of a bank is a share capital, people are apt to forget what stands behind that.

There is another point still to enter into consideration. Unlimited liability does not require a multiplicity of shares. That was Schulze's reason for limiting members to one share only. However he was anxious to make his members accumulate much money. They were to become capitalists. Accordingly he declared himself in favour of large shares, at least \$125, but by preference \$250, which amount however — since members might be poor — very considerable time was allowed for paying up in. (As a matter of fact there are shares down to \$25; and Schulze's Union now allows, theoretically, \$75 as a minimum.) Schulze's avowed object was to tie down members to a long continued practice of saving. In the *Schweizerische Volksbank* — which is an excellent business institution, covering all Switzerland by means of its branches formed essentially upon Schulze lines though not actually constituting a member of his Union — until some years ago this principle was carried to the almost ridiculous length of allowing more than eighty years for paying up the 1,000 francs share, at the rate of one

franc a month. Very rightly have the rules lately been altered. Now, even \$250 is not a very large amount to lay by in a desired progress to Capitalism — when the law of most countries allows \$1,000 to be amassed in shares — regardless of any further amount accumulated in deposits or loan money. In the United Kingdom, co-operators now propose to carry the figure to \$1,500; and the Portuguese Government has in its new Bill actually proposed \$5,000. Therefore Schulze's system does not after all quite realise his ambitious aim.

However the main objection to unlimited liability raised in Western Europe was this, that it commits people to an obligation, the occurrence and magnitude of which is absolutely not to be foreseen. Schulze himself with all his declared preference for it, described unlimited liability, accompanied as it is by dangers, as a "two-edged sword." "Our people would never have joined an association which threatened them with such grave danger" — so wrote Signor Ettore Levi, M. Luzzatti's brother in law, late Vice-President of the Bank of Italy, in his excellent "*Manuale per le Banche Popolari*." And Signor Giustino Fortunato, a foremost leader in the Italian co-operative credit movement, declares that unlimited liability would have made that movement "absolutely impossible." Accordingly, when taking the matter in hand in Italy, M. Luzzatti, although in the main features devotedly following Schulze's example, deliberately limited liability — limited it to the actual value of the share — but on the other hand laid it down that, whatever the

amount of the share might be, such amount must be paid up within reasonable time, by preference in ten months. That period has in some cases been extended to twenty months and even more. The precise length of time is a matter of detail and does not affect the principle. The essential point is that the bank is within a reasonable time to be placed in possession of its money in ringing coin, converting Schulze's "bird in the bush" into a "bird in the hand"; and that the member, having paid his money, is freed from all ulterior liability.

Neither did M. Luzzatti desire to see large shares. Shares should in his opinion be proportioned to the circumstances of each case. The Italian law, as it happens, does not allow shares larger than \$20. But there are shares down to \$1. So every one can cut his coat according to his cloth. And if he desires to invest more, he is free to acquire more shares, up to the value of \$1,000.

Germany adheres in the main to Schulze's tenet. Schulze himself, up to a few years before his death, regarded the matter as one of principle and was only late in life prevailed upon, seemingly with great reluctance, to allow limited liability to be admissible at all. Austria, which in other respects has trodden faithfully in Schulze's footsteps, is wavering. Elsewhere — with the exception of some co-operative purists, like the late Arrago Valentini, who consider unlimited liability to be the only "co-operative" form of liability, as really binding members to one another by common interest as in a true brotherhood — unlim-

ited liability is dreaded in this connection and, for banks based upon shares, limited liability has become the standing rule. Certainly results in Italy have shown that it is absolutely sufficient for the purpose kept in view; and M. Luzzatti's small shares, quickly paid up, have answered every bit as well as Schulze's large ones with plenty of time given — so much so that, as M. Luzzatti has recently placed upon record, the average figures for accumulation of capital, relation of share capital to loan capital, credit per member, etc., very nearly correspond under the two systems.

We have next to think of the employment given to the money collected. The proportion in which share capital is made to attract loan money is very unequal. It depends upon management and the measure in which good management is made known to the public; and it also depends upon favourable or else unfavourable circumstances. There are co-operative banks which, favoured by a trustful disposition of their local public, carry the proportion of loan money as compared with share capital up to the ten and twentyfold — which on the face of it is excessive and perilous; and there are others content with the double or treble only, which is a very moderate proportion. Loan capital in proportion to share capital as five to one is generally considered safe and permissible. Of course loan capital is cheaper than share capital; but gainseeking on the ground of such difference is scarcely good "co-operation," seeing that co-operation makes "safety" its first aim.

There is no reason why a co-operative bank based

upon shares should not become for its members, just like a capitalist organisation, a veritable bank for all purposes—barring the ambitious enterprises for risky gain entered into by the capitalist institution with the knowledge that there may be loss resulting from them as well as profit. All risky operations, as we have seen, must to the co-operative bank be “taboo.” But such bank may institute drawing accounts; it may cash and discount bills, and perform all similar services, just like an ordinary bank, on its own generally reduced scale. The assumption of such character in itself postulates that its main credit operations should be based upon personal security. “Banking is an easy matter enough,” so Poulett Thompson, subsequently Lord Sydenham, has laid it down in what has become an accepted golden rule for English bankers, “once a man knows how to distinguish between a mortgage and a bill of exchange.” The “bill of exchange”—or, which comes to the same thing, the promissory note, or, for the matter of that, the acceptance—is the instrument upon which dealing in credit must mainly rest. For that gives a thoroughly binding, and at the same time readily realisable, effect, which everybody understands, which inconveniences no one and upon which, if that should be found desirable, fresh money may be raised—at a small profit to the bank. The endorsement will have to be according to requirements. But even under the head of credit on personal security that will not exhaust all that the bank should make it its object to do. For limited liability banks, based upon shares, the secured current account—cash credit or

overdraft — constitutes a most serviceable and convenient method of doing business. In banks based wholly, or mainly, upon unlimited liability, as we shall still see, the case is distinctly different. In them overdrafts should form altogether the exception. But in a share bank there is no reason — once the means of ascertaining the financial value of each member are provided — why this method of doing business should not be freely resorted to for the convenience of all concerned.

That consideration raises a fresh point. In practice the bank — at any rate once it has attained a certain importance — will find it useful to practise, side by side, two distinct methods of granting credit — one on the ground of specific security given, the other on the ground of the general financial value of the member. In a small bank such distinction may not be called for. In it all business, being on a reduced scale, will practically come under the same head. In a fair sized bank it will be a great convenience to members, and a distinct stimulus to business, to have a system of “financial rating,” which will serve as a standard for overdraft, without further to do. And in a bank of the type at present discussed there will be no danger in this. That does not prejudice the question of security. It will be well in all cases to have the backing of one or two friends or else some other security, if it were only to accustom members to the practice of giving security. But, in addition, it makes the loan more readily realisable and security doubly sure. In Germany it is common to ask for an undated promissory note for every overdraft, which note may be subse-

quently dated by the bank, as occasion may require, and presented in case of anything happening which entitles the bank to withdraw the overdraft. However, at the bank's option — supposing that it considers such practice safe — on the ground of "financial rating," security may also be dispensed with. As a general rule the "rating" is kept secret — that shows its twofold use. It is not necessarily meant to ensure to the member an enforceable claim. That is done in some banks in Italy, where every member is advised of his own credit limit. Should he require a larger credit, he will be free to arrange with other members for obtaining their signatures, and with it their title to credit — for which of course those other members will make themselves liable — to add to his own. In this case A., with a credit limit of \$2,000, B., with such of \$1,500, and C., with such of \$3,000, may combine to enable one of the three to claim on the threefold signature a credit of \$6,500. Such practice is however not altogether to be commended. It introduces a mechanical element where discrimination — in every particular case — is essential. And it is liable to the abuse of members selling their signatures for a consideration. (In connection with this it may be not out of place to mention that, at any rate in the past, co-operative banks in which oversight was lax, have here and there been taken advantage of by the moneylending community for obtaining cheap money under a pretence of co-operation, wherewith to trade individually at a profit. In some countries, for instance in Galicia, such abuse is said to occur even at the present time. It

need not be pointed out that as much as possible every crevice ought to be carefully closed against anything coming near this.) More generally the "rating" list is kept strictly secret, nobody but the members of the Committee and the managing director being admitted to a sight of it, and it simply serves the managing director as a guide in his conduct of the business, so far as a discretion is allowed him. In fair sized banks the task of appraising members for credit is committed to a distinct committee pledged to secrecy. In small banks the Committee may take charge of it along with its other duties. It needs not to be added that the list wants to be carefully revised from time to time.

Special provision requires to be made with regard to "financial rating," so far as members of the governing bodies of the bank come into account. To refuse to such altogether the right to raise money on credit through the bank which they administer would amount to a measure of hardship unfair in itself and by which the bank would be likely to suffer. For good capable men fit for such service may not be overplentiful and the disqualification might deter good men from offering themselves. On the other hand it is but fair to say that in some cases where proper precautions have not been taken, office bearers' access to credit has been, even grossly, abused and the bank affected has been led into difficulties. The course most commonly resorted to to regulate this matter is, to appoint a special committee charged with nothing but appraising members of the governing bodies — which bodies must

not of course be represented on such committee. In small banks this method might prove inconvenient and unwieldy. But in them also danger would be likely to be less. There the two governing bodies might be allowed to judge in common, in the absence of the applicant, or else, in very small banks, the case might be referred to a special general meeting.

All that has thus far been spoken of refers to a general allowance of credit, on the ground of possessions or of character. Specific loans, to be granted on distinct security, will have to be judged on their own individual merits. And any excess credit which "rated" members may ask for, will have to be dealt with in the same way. Provided that there is money available, every security should command its own credit. Supposing that the man "rated" at \$200 offers a good approved bill for \$5,000, provided that the money is there, he is entitled to have it discounted.

That calls for the interpolated remark, that in a co-operative bank — intended, as it is, to make credit accessible to small folk, who would not be able to obtain it by other means — credit should not be allowed to run lumpy. Every claimant should have an equal chance. No monopoly or quasi-monopoly can be permitted. There is no room there for the worship of the golden calf. And in general, whenever there is competition, small loans should be given the preference over large — let alone that by reason of their subdivision they are reckoned safer. But apart from this, the man who wants a large loan is more likely than the applicant for a small one, to obtain what he wants elsewhere.

Indeed, he may conceivably obtain it on more favourable terms elsewhere.

One would not wish to have length of time judged by the same rule. No doubt a short term loan is, other things being equal, considered safer than a long term one. But that is not the only consideration to be taken into account. The man with the long term application is likely to have less prospect of being accommodated for such long term elsewhere; and the particular type of loan that he asks for may be just of the sort that a co-operative bank is formed to favour.

The granting of loans raises as a corollary the question of the security on which they are to be granted. There may, as has been already observed, in some cases be a waiving of security altogether. That is appreciated as a valuable convenience to members. But it is apt to prove conducive to lax practice, and in any case it leaves the bank without a pledge to repledge in case of need. It will therefore certainly have to be employed with great circumspection and sparingly.

There is one class of security, very tempting at the outset, against which organisers of co-operative banks ought to be warned. That is, any shares held in the bank asked to make the advance. So tempting is lending upon such shares felt to be, that in some banks members are allowed to raise money upon them, even in excess of their face value, the care exercised in electing the member being held to stand for additional security. As a matter of course the bank should have a standing lien upon every share that it issues — which share, so it will be well to remember, must not be nego-

tiable, and transferable only with the consent of the bank previously obtained. But the shares returned to the bank cease to have for it any value for business purposes. They simply indicate that the owner has lost his rights as member of the bank. Shares are of value to the bank while they are in members' hands, in which case the bank holds the money paid for them, possibly with additional liability attaching to them. In its own hands they are mere paper. A bank all shares and no money would be a mere name. So essential, indeed, is it rightly held to be that a sufficiency of shares should be placed with members, that well organised banks — like the *Schweizerische Volksbank* — make it an instruction to the Committee, in the event of such sufficiency being endangered by notices of withdrawal — where withdrawal is allowed — at once to summon a general meeting, to decide whether the bank is to go on or to wind up before the threatened withdrawal has taken place. This is altogether independent of the usual legal proviso that in the event of the number of members falling below the statutory number the registration of the society shall be cancelled.

As regards withdrawableness of shares, no universal rule can be laid down. Under the British Industrial and Provident Societies Act no share is allowed to be withdrawable. Elsewhere withdrawableness is appreciated. Whatever be laid down with regard to withdrawal, a share must not in any case be transferable without the bank's consent. To make it even only practically so, has led to serious abuses in some few Italian banks where, dividend being high, co-operative

bank shares are openly dealt in at a premium in the market. That is as un-“co-operative” as anything can be and leads to what the late Father de Besse, a prominent champion of co-operative credit in his lifetime, has termed “attempting to fight usury by practising it.” Under the German law, which is generally good and well considered, the pledging of shares of co-operative banks is altogether prohibited.

As already stated, the form of security favoured should be personal. However it is downright impossible, even in a bank shaping its business as much as is practicable on the model of ordinary bank practice, altogether to keep out pledge security. Even a trade bill — which is by far the best kind of security that a bank could take — brought for discount is after all a pledge to the bank, although the security pledged in respect of it is purely personal. Mortgages or real security should be as much as possible avoided, as constituting very inconvenient pledges. Even such however occur in actual practice. But they should be kept down. However public and private securities, bankable paper of all sorts, afford very good and convenient security, which ought to be welcomed. In German credit associations, the managers of which aim at making their institution as much as possible resemble ordinary banks — except for maintaining the underlying governing principle — the list of favoured pledges generally ends at this point. In Italy and some other countries, where there are more small people to consider, a good deal more pledge credit is permitted and even favoured. And very rightly so. For these banks

are formed to supply the wants of small people and they must not allow their ambition to become like other banks to stand in the way of their realisation of that aim. Even dock warrant credit, so to call it (*warrantage*), which is much practised in France and consists mainly in the pledging of agricultural chattels and produce, with or without surrender of the custody of the pledge to the lender, is not held to be enough. Such credit, in truth, has some serious drawbacks attaching to it and is not generally liked. But the banks, so far as they lay themselves out for really "people's" banking, catering for small folk, seeing that they have to provide for all sorts of humble wants — purchase of tools and implements of sewing machines, of provisions, payment of rent, holding over of goods, all the humble wants in fact that poverty-stricken flesh is heir to — of necessity have to vary their requirements as to security in a corresponding way. A tradesman or mechanic having an account against a customer; a contractor executing some job, building or otherwise, for another person; a peasant tending his cocoons or holding over his produce — whatever the want may be, the small man's bank is ready to make the necessary advance upon the security indicated, provided that the maturing asset is verified as good, or the goods are shown to be there. The contractor will have to bring a certificate from his customer to show that the claim is genuine, to obtain — say — the amounts periodically required for paying for material or wages — always supposing that both claimant and certifying patron are judged to be trustworthy. That is a form of credit which it is

now sought to develop largely in Italy, in a different way, but also in the service of Co-operation, by means of a bank endowed by the Government with \$1,600,000. There are a considerable number of builders' and navvies' societies in Italy, which have constituted themselves self-employers, taking over contracts — some of them of importance, like the Castle, a water tower and a cemetery wall in Milan, a building of the Mint and great sewage works in Rome, and some short railways — directly from private persons or public authorities, which they are generally found to execute to full satisfaction. Their weak point is, of course, at any rate initial want of capital. Co-operative banks have assisted them to the loan of such, as well as well intentioned private capitalists. And they have generally turned such loans to good account. By this means a new, promising prospect has been opened to the Italian working classes and a healthy improvement of their condition has been brought about. The new bank, at Rome, which is authorised to do all classes of banking business, was particularly formed to assist such societies with capital on the security of the work in progress. In France, a bank formed and directed by co-operative working men's productive associations supports such associations in the same way, with a view to accelerating the emancipation of labour. In Italy a tradesman or woman, down to a milliner or laundress, having a claim against a customer, may in the same way have such claim discounted by his or her *banca popolare*, provided that such claim is first verified. Many are the sewing machines which have been provided by co-

operative banks for poor women to enable them to earn a living. The late Léon d'Andrimont told the story — one among many — of a poor hawker in Liège, who used a barrow hired at 6 cents a week, but, being told of the People's Bank, took up a loan there, which secured him full possession of a barrow of his own in less than a year, he still paying, for that limited time only, the same 6 cents a week. Similar things are, of course, done in the agricultural calling — or, let us rather say, in a wider range, amid rural surroundings. There are substantial wants to be satisfied there, and there are also very moderate ones. The aim of the bank is to satisfy them all. In Germany many a co-operative dairy has been set up with money advanced by the co-operative bank, to be repaid by a levy of so much for every gallon of milk used. In Denmark dairies have been started in the same way; however, no co-operative bank being present, with the help of loans from private capitalists. And there are very humble banks with small folk for members, taking up very small shares down to \$1, doing much business on similar, although financially reduced, lines. Some of these banks for all their modesty occupy large districts. That makes the service rather more expensive; but it satisfies a want which is not otherwise to be satisfied. And the money lent, say, at 6 per cent., is still much cheaper than what the borrower could obtain from other quarters. As far as is possible, for such small loans — just as for larger — the security taken is personal — two or three other people vouching for the borrower. But there will generally be a lien upon the

object bought, which constitutes it a pledge — and, let me add, though collateral in form, in fact often regarded as the main security. Otherwise the favourite record of a loan is a bill or promissory note, which makes both lending and recovery easy and is negotiable for the obtainment of fresh money.

Business being mainly based upon personal security, it is very important that, if possible, a record should be kept of both borrowers and their sureties — even if the latter be non-members, which is perfectly admissible — so as to have a clue to their habit of honouring liabilities. This is done in not a few of the larger banks, sometimes with the aid of a distinct committee, which in Italy goes by the name of “the Committee of Risks.” A record is kept of the punctuality observed in the payment of amounts due, of any trouble occasioned, and anything else that may become known that concerns the value of the borrower or his surety as a borrower or endorser, in order that, upon a fresh transaction being proposed, managers may be able to judge from the past, whether they have good men to deal with or questionable. All this tends to security. And it helps not a little to educate the untrained population to businesslike habits.

It remains to describe briefly the organisation of co-operative banks of this type. The object aimed at must be to combine capacity for prompt action with careful control and checking. The best organisation under this aspect is that which the law of 1889 — which is generally a good law — has made obligatory in Germany. In its main features it has found a sort

of replica in the Austrian law, which is likewise generally good. The form of organisation adopted in Italy, and subsequently copied from the Italian prototype in some other countries, is in truth only an adaptation of the older German type of organisation, since discarded. The main difference is that in Germany and Austria the Managing Committee — corresponding, as has already been explained, to the “managing director” of a company — and the Council of Supervision — which in the same way corresponds to the “Board of Directors” — are essentially distinct bodies, none of whose members may at the same time form part of the other body; whereas in Italy and the countries following its lead the managing executive is elected from out of the midst of the Council, elected by the members at the General Meeting as the General Committee. Inasmuch as the office of the Executive is to manage, and that of the Council to check, quite evidently it is preferable that the two should be perfectly distinct, the one being in a manner responsible to the other. Such arrangement also permits freer play to be given to the principle already pleaded for, that the managing body of the bank should be able to deal promptly with any application coming before it. For the Managing Committee will have to be in frequent, it may be, daily attendance, whereas the General Committee or Council will meet only at comparatively long intervals. Under such arrangement the managing body may be small, being on the other hand accountable to a much larger body, the very largeness of which is sure to invest it with greater authority.

Outside Germany, where the older method of organisation has been retained, the numerical position of the two bodies is sometimes reversed, that is to say, there is a comparatively large body to administer and a smaller body, of three *censeurs*, or it may be only one, to check and examine. Very little argument ought to be necessary to demonstrate that, although with good will and anxiety for the best interests of the bank, this arrangement *may* be made to work well — as in fact it has done in many cases — the other is greatly preferable. For the sense of responsibility, and also the possibility of holding men to it, will be greater in a small body of managers than in a large, and, on the other hand, the authority of a large body exercising control, will carry far greater weight. In Germany, in these share banks, there are three managing directors, skilled men, appointed for as long as they give satisfaction, and salaried according to the time that they are required to give up to their work. In banks of any pretensions that will be their whole time. They are nominated by the elected Council (representing the Board of Directors) and are removable by the same authority. If they are not already members of the bank they are required to become so. But they are appointed on the ground of their banking capacity, whether already members or not. They act as one body, every exercise of their power requiring a signature at all having to be signed by at least two of them. That secures, together with responsibility capable of being brought home for each act, the great requisite of “efficiency.” The Council, on the other hand, con-

trolling them on behalf of the members, will under such circumstances act with the greatest authority possible and will, on the face of it, be committed to and interested in, efficient control of just that sort that is here required. That means that it is not only to audit and verify entries — although that will be part of its duties; but, in a bank of any size that part of the control will much the best be left to a skilled accountant acting under the Council — but to judge whether the Managing Committee have properly exercised their discretionary powers, lent to the right persons — or rather, not lent to the wrong ones; lent the proper amounts; taken adequate security, and kept it up at the point of adequacy; whether borrowers have observed their engagements with regard to employment and repayment and so on. To do all this a body endowed with authority is needed. A single *censeur*, or three *censeurs*, could not do it with the same weight. The arrangement also emphasises the fact that the controlling Council represents the great body of members and acts on their behalf, overhauling things in their interest, in order to present to them at the annual meeting a separate Report, distinct from that of the managing body, a kind of precognition, making whatever has happened more readily intelligible to the body of members, for whom of course supreme authority in all things must be reserved, but who are necessarily unfamiliar with details — and possibly also with accounts. Thus you have the best executive body that you can obtain, balanced by the most efficient controlling body.

Under the other arrangement good work has been done. Good men, devoted to their duty, may make almost any system answer. But there is less certainty of its working well, as experience has shown. M. Luzzatti himself has admitted that, excellent as are his best banks — he places them above the German — the general standard does not in Italy come up to the German. That is mainly owing to the absence of Union control. But the particular form of organisation employed must likewise count for something in the result. Practically the Italian *direttore*, a salaried officer, appointed, like the German managers, as a permanent official, with the help of his salaried staff and the unsalaried *sindaco* — one of three *sindaci* elected annually, with two deputies to replace them in case of need, out of the General Committee — does the same work as the German three men, and when he is a good man, he does it well.

The number of three, common in Germany, as considered the most suitable, is, by the way, not prescribed by the law; there might be only two, the one to check the other, or there might be more. However in practice three have been found to answer best. The Italian *sindaco* represents the Committee. But his work is, for an unsalaried officer, exacting, and the frequent changes, as *sindaco* replaces *sindaco*, might lead to a want of continuity, or else make the oversight exercised illusory. The *sindaco's* placet is necessary for everything that is done, and his signature in approval of what has been done of course clears the permanent officer, the *direttore*. In Belgium banks have contented themselves with only one *censeur*, who is prac-

tically an auditor. He could not "sit upon" the Committee for trusting Robineau or Grosjean to excess; but he sees carefully enough that figures and cash are correct.

In all such arrangements for management consideration must be taken for local peculiarities, whether the bank in question be large or small, and situated in a rural district or in an industrial centre. The smaller the bank, the simpler may the arrangements adopted be, and unsalaried officers may replace salaried. The larger the bank, and the more varied is its business, the more composite will have to be the administering and checking apparatus. There will have to be more officers, more committees, more special funds and special accounts, and salaried service will become a necessity. A salaried officer of course will be all the more subject to being called to account. The two great points to be kept steadily in view are that there should be an efficient administering body, with power to act promptly, and a superior body exercising effective control. Whether the officers composing the last named body are remunerated or not — if they should be, it will be best to remunerate them according to attendances — is a matter not affecting principle, which ought to be decided according to the amount of work required of them and the resources of the bank. Generally speaking, in a large bank, doing an active and varied business, the biblical precept which Schulze habitually quoted will be in place, that "the labourer is worthy of his hire." But this principle should not be pushed too far. In any case it will be questionable

practice to allow remuneration by commission, whether on business or on profits. Of the two of course commission on business is the worst, as inciting to the cultivation of business for business' sake, no matter whether profitable or otherwise, such as has wrecked banks. But commission on profit likewise has its points of danger, as tending to make services costly which the bank was formed to make cheap, in order that there may be more profit, in other words, exploiters and exploited. In Italy and Belgium a sufficient supply of thoroughly qualified men to do General Committee work without remuneration and willing to serve has never been wanting.

One little item of specifically Italian co-operative bank work it may be well just to mention. In Germany Schulze would not have very poor folk, dependent upon assistance, in his banks. M. Luzzatti took a more philanthropic view. Philanthropy is in Italy held to form part of Co-operation. And to do justice to that principle M. Luzzatti recommended that part of the profits of co-operative banks should be devoted to works of educative charity. He introduced the "Loan of Honour" — which is very like the lending done by "Remedial Loan Societies," only that it dives lower down and often dispenses with interest altogether for loans, which appear to be generally honestly repaid. The beneficiaries are very small men, but accepted on the ground of their supposed deservingness, which often enough Friendly Societies are called in to adjudicate upon. The practice is highly praised by its champions, but it has remained small in extent and bank

managers have explained to me that they keep it up — where they do, which is in very few banks — more to give M. Luzzatti pleasure than for any other reason.

Banks of the type here described will, as has been already pointed out, serve both an industrial and an agricultural or rather rural clientèle or membership equally well. And the system will do both for small, even very small, and for very large banks, as for instance such giant banks as those of Milan and of Leipzig or Augsburg. The last named is mainly agricultural and by reason of its ramifications serves the best part of a large province.

Such extension of business calls for some special arrangements which deserve noticing. Membership in such cases is widely scattered and of course, in comparison with urban populations relatively sparse. It is therefore impossible for one administrative staff without assistance to overlook and control the whole. In Italy banks in similar positions form branch establishments for distinct districts which eventually sometimes develop into independent banks, not as a matter of mutinous secession, but for mutual convenience. In Germany headquarter staffs like to keep government altogether in their own hands. But they establish their hold upon districts by means of local committees or else local agencies, with unrevealed confidential advisers to supplement their services. The latter report to headquarters. So do the agencies and local committees, both of which are authorised to accept monies, be it as deposits or be it as repayments, being allowed a trifling percentage upon them,

as a reward for their trouble. Furthermore they are to receive applications for loans, which they forward to headquarters together with their remarks upon them, as to the substance and trustworthiness of the applicant and the propriety of the application, to their thinking. Where the local representative of a bank is a committee, such remarks are sent up in closed letters, every member's observations by themselves, without being communicated to his colleagues. In any case the head office reserves to itself the decision as to granting the loan or not, on the ground of the information communicated to it and any other information that it may possess. This system has worked well, and under it signal services have been rendered to agriculture.

CHAPTER IV.

CO-OPERATIVE BANKS BASED UPON UNLIMITED LIABILITY

HIGHLY useful as the system of co-operative banking discussed in the preceding chapter unquestionably is, it is not every one who is in a position to take advantage of it. There are millions, more particularly in country districts, to whom the demand made for a share to be taken up for cash must form a forbidding obstacle, and who have not quick business enough to bring to the bank to keep it steadily employed. Their loans are likely to be few and far between, for long terms, during which the bank's counters will remain unfrequented by them. Also, among the untutored sons of the soil there are many indeed who shrink from signing a bill or a promissory note binding them to repay under penalty on a particular day. They cannot tell at what precise moment their money will be coming in, and the necessity to realise produce for the sake of keeping a fixed term is just what they wish to escape from. And these are precisely the people who need the financial help of co-operative credit most. For them, accordingly, a different system of co-operative credit has had to be devised, which possesses the additional merit—for those who appreciate such

things — of bringing into considerably higher relief the educational, moral and social side of co-operation. And, strange as it may conceivably appear, among the help-requiring masses of economically backward countries, whose acquaintance with business practices is of the crudest, this more primitive system is really more readily understood than the other, and it appeals more commandingly to their conception of helpfulness. So, for instance — not to speak of the broad expanse of rural Germany and Italy, where co-operative banking without shares has worked veritable wonders — it has been in India. The uncultured rayat readily grasps the simple principle of unlimited liability and willingly conforms to it. So probably it would be among many of the small white settlers and among the teeming negro population of the United States.

Very needlessly has there been for a long time a keenly animated controversy carried on between the advocates severally of the one system and the other, keeping them jealously apart. Happily that period of strife arising from prejudice and want of mutual understanding is over, and the disciples severally of Schulze-Delitzsch and Luzzatti and, on the other hand, of Raiffeisen, are now, as they should be, on the best footing and working hand in hand, recognising that each of the two systems is the natural and necessary complement of the other. Both systems, so it may be well to point out, make for the same ultimate end, beyond the mere provision of temporary assistance by credit. That end is the systematic raising of the position and character of those who practise such credit.

In either case the end is to be attained in a distinct way. Schulze's idea of self-help, although based upon the recognition of the necessity of joint effort by genuine Co-operation, was marked by strongly individualistic features. While working together with others, every member was to be made to work also individually for himself. His share in the gains was to go into his own pocket. On coming in he must possess sufficient capital of his own to be able to stand by his own strength. And he must continually add to such little store and raise up out of it a solid fabric of wealth by his own efforts. Whoever was too poor to do this must be left out in the cold; Schulze referred him for preparatory strengthening to charitable organisations, which might raise him up to the required level. So here was to be the possession of capital growing out of the possession of a capitalist germ. But the germ must be there, and of sufficient vitality. Raiffeisen looked at the problem from a different point of view. He saw poverty before him crying out for help. There might, so he thought — and the result has shown that he was right — be plenty of honest men, deserving to be trusted, of more primitive habits in business than Schulze postulated, possessing all moral elements for credit, yet unable to comply with the conditions of binding themselves to the taking up of a share and a course of action savouring of capitalism. This must be so particularly among the humble masses of dwellers in the country, among whom ringing cash is scarce, though there is a steady production of articles of value, and to whom the ways of the countinghouse are un-

known. These people needed help. Their condition was likely to be backward, not in knowledge of business habits only. Living in sparsely populated districts among a primitive population, Raiffeisen found their needs being brought appealingly under his notice. He discerned the difference in the circumstances on one side and the other. He saw that the lonely country side engenders different habits, being both helpful and hindering, to those which active town life generated. The untrained countryman needs a very different kind of help from that which Schulze's system had to offer him. And why should not his better endowed, better educated, more highly cultivated neighbour give it him from a feeling, a sense of duty, which the Bible inculcates — so long as he gives it in the right way, without undermining the sense of self-reliance of him who is to benefit by it? One of Raiffeisen's chiefest merits, if not the chiefest, in my opinion is this, that he has, with complete simplicity, but yet with creditable ingenuity, devised a means by which the better-to-do may help — financially help — the poorer without demoralising him, nay, while actually strengthening his fibre and raising him to a higher status, by means of a quickened sense of responsibility and recognition of duty.

Raiffeisen's system, which is to form the subject of the present chapter, has by its admirable results — specifically in country districts — endeared itself generally to all who have come to understand it and in whom humane instincts are vivid. Its popularity as a rural institution has in some quarters attached to it the not altogether merited reputation of being the only

system to be of service to agriculture. That is a mistake. There are whole sections of agriculture in which it would be out of place. There are not sufficient statistics to admit of testing the point, conclusively; but it is quite possible that in respect of *volume* of money given the Schulze-Delitzsch and Luzzatti systems have done more for agriculture. They have raised larger sums. So far as Italy comes into account that is certainly so. However the amount of money produced is after all not the only criterium by which a system deserves to be judged. Raiffeisen's little banks, although highly beneficial to agriculture, never set up the claim of being specifically "agricultural" banks. That is an entire innovation upon his scheme, which adapters, anxious to achieve success by enlisting egotistical class interests — which has made them political — have grafted upon what in its original form was simply philanthropic, but at the same time also soundly businesslike. Raiffeisen's own societies style themselves unpretentiously "rural loanbanks." They are designed for *rural* populations — but for populations of this sort in their full comprehensiveness, regardless of callings. Amid such populations it was Raiffeisen's aim to accomplish what M. Luzzatti has termed "the capitalisation of honesty." There was no demand made for capital. But there must be honesty — such as neighbours could vouch for. Just as the distributive co-operators — beginning with the poor weavers of Toad Lane, who possessed nothing — systematically build up capital out of custom, so he would turn the rural have-naught who was upright in his dealings,

slowly but surely into a capitalist, by means of the use that he was to be enabled to make of the money which Raiffeisen would help him to borrow for the business which in any case he would have to transact. The Raiffeisen system is distinctly a scheme for small men in country districts, and its main attraction and most conspicuous merits are to be found in the educational, moral, social, as well as economic good which it accomplishes among those whom it takes in hand. The small man — and the better-to-do, who is anxious to help him without demoralising him — find their proper places in such society. The better-to-do farmer, who can readily take up shares and who is thinking only of providing himself with more working capital, will do better to go to the other system.

There is no need to tell over again the story how Raiffeisen, a plain man of the people, educated in a “people’s” school, serving as a non-commissioned officer in the Prussian artillery (though actually about to qualify for a commission), owing to a defect in his eyesight was diverted from his military career and became, advancing step by step, a public benefactor to people in all the world. Schulze, as “patrimonial judge,” learnt through his judicial practice of the needs of the humble trading class and was so led to devise a scheme of credit which would benefit primarily these people and eventually others. Raiffeisen, appointed a rural “maire” — in the French sense of the word; for his country Rhineland was still under French law and French municipal organisation — likewise through his calling and office learnt of the far more grinding dis-

tress endured by the humble population of the rural districts, whose everything, such as it was, was for the most part mortgaged to "the Jews" and who had become very peons to their bloodsucking masters. He likewise set his heart upon bringing these people help — help, not only in money — for money would at best yield them only temporary relief — but also in the more valuable and enduring shape of culture and formation of character and of a capability of acting together generally. He began in the approved way with a philanthropic organisation. He found that that would not go nearly far enough. It might slightly reduce economic need; but it did not form character; it cut off a poisonous shoot, but left the venom-soaked stock to produce all the more lustily. He tried charity — the dispensing of gift money and "remedial loans." That, too, proved a failure. So he found himself driven to Co-operation, which enlists the efforts of beneficiaries themselves and so produces both a better and a more enduring result. He began with a co-operative bakery — because bread at a reasonable price was most urgently needed. That brought instant relief, but only at one point. He then attacked usury in one of its pet strongholds, the cattle trade, which bristled with vile abuses. Once more he scored — moderately. These experiments taught him that he must take wider ground, that he must teach the people whom he desired to help to co-operate for common good in all departments of economic life. And the centre of such life he of course naturally discovered to be the disposal of money. "It is money which makes the mare to go."

And that is borne out by the teaching of observation elsewhere. The Spanish *pósitos*, the Italian *monti frumentari*, which began as grain preserving and distributing depositories, such as the patriarch Joseph might have established, have to a great extent been converted into money foundations, and are being so converted more and more. And in India the co-operative bank, dealing in money, crowds out the humanely designed "dharma gola" or granary. Money has become the soul of business. Raiffeisen's societies accordingly are not mere credit societies. They are co-operative societies in a multiform aspect. But the pillar of the whole necessarily is credit.

What has just been said about Raiffeisen and his aim will give a clue to the main features of his system. His banks are distinctively meant for the comparatively humble — smallish farmers, down to the veritable have-nots, it may be the beggar on the dunghill, if he is only honest. That being so, there was no room for asking for anything from the incoming member except character, to be vouched for by his neighbours, who would join with him in the common credit venture, staking their own liability for themselves and him. Raiffeisen would have neither shares nor entrance fees — absolutely no tax in money. That meant of course that — according to Léon Say's well known dictum — there must be unlimited liability, and also, that whatever was foregone in respect of money must be all the more carefully made up for in discrimination regarding character. It is absolute nonsense to pretend that a Raiffeisen bank can live upon limited liability; and

no less a mistake is it to press people to come in, in order that there may be many. Lenders and depositors want to have the full phalanx of members to answer them for their money with all that they are worth; and those who so pledge themselves want to be sure that those with whom they join together are to be trusted.

It is sometimes contended that Raiffeisen banking depends upon the possession of land as a backbone to members' liability and that without such possession Raiffeisen credit is not possible. That is a great mistake. The wide extension which the system has found among mere tenantry in Italy in itself gives that heresy the lie. It is quite true that in Germany among adherents of the Raiffeisen system peasant proprietorship predominates. That is because in Germany ownership is the rule. But the liability engaged is in every case personal. It *should not* take the shape of a mortgage on land, save in exceptional cases. It is the liability which pledges all that the member has, no matter whether as owner or as tenant — which compels the member to give the one substitute for money that he can give, and which constitutes a very much better security than mortgaged land, to wit, the straining of every nerve, by caution, by discrimination, by vigilance, by warning, to preserve his society and himself from loss. That is the corner stone upon which the fabric rests. There *must* be unlimited liability.

Now let us see how that works. No new man can come into the bank except by the vote of the members already in. Make them responsible only for a fixed

sum — even if it be fairly large — and they are not likely to be overcritical. “We stand to lose thus much, not more; after all, A. is a man whom one would not like to offend; so we will trust him.” Make the liability unlimited — which means, that every member in the bank will become liable in respect of every case of default made by any other member — and they scrutinise their man keenly, in order not to be brought into loss.

It may be well to point out what a remarkably stimulating effect that has had in Raiffeisen banks, not only under a financial, but no less so under a morally and socially educating aspect. Membership has not gone long a-begging, once it was discovered that by it money was to be got. Jones saw how well Brown was doing with bank money and he did not want to be left out in the cold. However, Brown’s comrades judged Jones’ claim to become a member to be open to question. Maybe he was a spendthrift, maybe he was an idler, or a drunkard, or suspected of being something worse. Being potentially committed to liability for him, they did not stand on etiquette: “No, my friend, we will not have you at present.” However, there was good to be got out of becoming a member. Jones was not asked to “serve God for nought.” So he took to serving Him for what he needed and was anxious to get. He abandoned his bad habits, became a reformed character — and was elected. Being liable to expulsion in case of relapse, he remains on his good behaviour. There have been numbers of such cases. Even down to the very humble requirement of being able to finger a pen, men

have been driven by the Raiffeisen banks to learn writing in their old age. Illiteracy is greatly rife in Italy. There are districts with about 80 per cent. of illiterates. But the *cassa rurale* required that there should be no member who could not at the very least sign his own name. And so old men have taken to learning to write from their grandchildren. You may still tell what novices they are in writing by the sprawling, straggling characters of their signatures. It is a matter of common observation that wherever there are Raiffeisen banks, not only is there less pauperism and poverty generally — there is a saying current in Germany (in the shape of a couplet) that whoever sets up Raiffeisen banks thereby pulls down poorhouses; ¹ but there is also a higher level of morality. Even the Serbian peasant forsakes his *slivovitz* and becomes sober. In Germany crime and larceny have decreased under their influence, as pastors and local judges have testified. Potatoes have become safe in their graves and in the fields, and manure has become so in its heaps. Formerly both used to be freely stolen. And education has progressed.

But let us advance one step further. Brown has rejected Jones as a member. But he has still his own officers to elect. Once more unlimited liability makes him severely critical. "The man in that position may cause me loss; let me make sure that he is a good one." Unlimited liability banishes respect of persons; it recognises only merit.

¹ "Wer Raiffeisen-vereine baut
Reisst Armenhäuser nieder."

And, the Committeemen and Councilmen being elected, our unlimited liability man is not disposed to leave matters further alone. Publicity is the rule in the bank. Every member has a right to know who has borrowed, how much and what for. So Brown lays himself out for knowing, and he follows his knowledge up. He does not want to be made to pay.

So again it is when the balance sheet comes to be laid before the General Meeting and explained by the Council. Things are inquired into minutely that would under other circumstances be allowed to pass without comment. Unlimited liability sharpens intelligence as nothing else will and breaks down barriers of caste and class and office.

In this way unlimited liability supplies automatically that "elbow grease," that personal trouble and inquiry which in such an institution as this is to replace capital. "We make sure of being able to repay — because we take care to see that everything is done to make repayment to ourselves certain." "What have all these men among them got to produce supposing that they are sold up?" So asked of me the late Duke of Devonshire when, twenty-three years ago, I invited him to become President of the Agricultural Banks Association. Well, for the matter of that, they have probably got quite enough to answer for liabilities. In France M. Louis Durand, reckoning up the possessions of members in his rural banks, found that they possessed a good deal more than they owed. But selling up is a point that they will never allow the matter to ripen to. Selling up would mean dire distress to themselves. So

they take care to prevent it. On the other hand, the man for whom they make themselves answerable would find himself in a very undesirable position were he to betray his classmates, who exercise judgment in their own way and have good, retentive memories. So he is careful not to play them false. In truth it is almost marvellous what a compelling force such class feeling exercises upon borrowers. I have told a story of a working man in a rather remote suburb of London, who never thought of repaying the vicar, from whom he had borrowed £2. "Oh, you're the vicar; you don't want it." But that same man repaid his local "self-help society" every penny to the day. In Italy, where poverty of the crassest sort is rife, poor folk emigrating have returned their borrowed money scrupulously even from their distant transatlantic new homes, simply from a feeling of honesty to their "pals."

The upshot of all this is that if you want to have a bank on Raiffeisen lines you may do without shares and without entrance fees — although if your members can afford shares, such are a useful support to the bank, and entrance fees, as has been already shown, have merits of their own — but you cannot do without unlimited liability. Attempts have been made to do without it — mainly because there were kindly disposed persons who were willing to support the bank, without intending to borrow from it, but who would not "go the whole hog" in making themselves liable. From such well-intentioned men, provided that they are in earnest, unlimited liability is required at least as much as from the humbler prospective beneficiaries,

just because you do not want their money. Were they to pay, that would demoralise the whole institution. It was Raiffeisen's particular merit that he devised a means by which wealthy men may help the poor without demoralising them. You want their title to credit, but you also want their counsel, their guidance and personal participation in the work, because they have the command of business experience, knowledge of the world and common sense — qualities most valuable to you — in a higher degree than their humbler neighbours. This is in truth what you want of them most. But they could not be relied upon for giving it to the extent that you want unless they are compelled to this by unlimited liability. A limited financial stake they are prepared to sacrifice. If they desire no more than to help with money, let them deposit such, and they will be free from all care and run only a very limited risk. The attempt to combine Raiffeisen credit with limited liability — which Raiffeisen himself deprecated and pronounced practically impossible, as do his followers to the present day — has in all cases ended in patronage, which is the exact opposite of co-operation. The late Count Alexander Károlyi wanted it in Hungary. He created a central bank — and his local banks have become little more than distributing stations. Some large landowners in Prussian Saxony and in Pomerania wanted it — and they have got it. But the late Dr. Haas himself, the president of their Union, judged it misplaced, as he has himself written to me, and merely tolerated it for the sake of keeping the societies concerned in his Union. The practice

could not possibly be reproduced on the same lines in any other country. For Prussia has its income tax down to \$225 per annum. Every man is appraised for tax down to that point — and below it. For there is an imaginary scale of estimated incomes downwards from that point, in order that not even the smallest fish may slip through the taxgatherer's net. And on such appraisement is the liability assessed. Where else is there an appraisement of such small men that could be relied upon? You cannot have this kind of co-operative bank without unlimited liability, because it would lack the requisite security and it would lack, which is even more important, the requisite stimulus to watching and checking and taking trouble.

And it is unlimited liability which determines the leading features of this humble institution — which people must not picture to themselves as of importance by reason of its magnitude. “It is its humbleness which constitutes its beauty” — *dont l'humilité est la beauté* — says M. Eugène Rostand. Its importance lies in its services, and its results become great by the multitude of organisations with which it covers the face of a country. It is “detail business,” says the German Imperial Chancellor, Herr von Bethmann-Hollweg; and that in his opinion makes it so valuable.

The bank being based upon unlimited liability and mutual checking, it follows as a matter of course that, in the first place, members must in all cases be limited to membership in *one* such bank only, or their liability for all that they possess would become illusory or at any rate of only doubtful value; and, in the second,

that its working district must be small, in order that members may be bound together by the link of proximity, which alone ensures a possibility of their knowing and watching one another. In this respect it is best not to cherish any illusions. Such a bank as this cannot work in a sparse population or where people are strangers to one another. I have found a telling instance of this in eastern Prussia. The institution is much favoured by the Prussian as by other Governments, on the ground of its excellent results. However in the newly formed settlements in the Polish provinces of Prussia — which in themselves are highly interesting, and would be even more so if they were not formed with a political object, namely, to stamp out Polonism and replace it by Germanism — the President of the Settling Commission some twenty years ago — he is dead now — complained to me that with all good will in the world he could not push them as he would wish to do, because the settlers, newly gathered together from all parts of Germany, and from Switzerland to boot, were still without sufficient touch and power of mutual control. And amid a sparse population the whole thing becomes impossible for lack of the same essential postulates.

There is another reason which under this aspect makes large districts undesirable. Raiffeisenism was, as already observed, not simply to provide credit attainable by the poor. It was also to create a kind of brotherhood among members, such as would link together the various elements of the whole parish, make people buy in common, sell in common and pursue in

common the same economic and ideal aims. For that reason, once more, the working district must be small.

However, there is more even than mere limitation of district and non-limitation of liability that is wanted. Members joining have their vigilance and power of discrimination sharpened by unlimited liability, but they must be given a fair field for the exercise of these functions. In other words, the organisation of the society must be thoroughly democratic. Wealthy men and men experienced in affairs are desired in it, because they may be exceedingly useful. Their presence is not indeed indispensable. There are banks without them. But it is by far preferable that there should be such. Raiffeisen distinctly urged this and recommended for the safeguarding of such well-wishers' interests, that they should as a standing rule be allowed adequate representation on the governing bodies. It is to the interest of the bank itself that they should have such. And with it, so it deserves to be pointed out, they are perfectly safe. For their assent will be needed for any employment of money. It is just conceivable that they might raise objections but should nevertheless be overruled. That is not indeed very likely. But suppose that it happens. Our well-to-do men may in that case simply resign their membership. Under newly revised rules in Germany — where the institution has been long at work, where people are thoroughly well broken in to its ways, and where, in the last place, arrangements for control have been carried to a high state of perfection — rather considerable notice is now required for withdrawing. But on new

ground nobody would think of tying members down to such condition. In early stages a member must be left free to go out whenever he pleases, and from that moment his liability for transactions not yet completed ipso facto ceases. The bank would then by an exercise of unreasonable self-will lose a member or members whom in its own interest we may be sure that it will be anxious to retain, if possible. Therefore overruling is not likely to be lightly or capriciously resorted to.

However, apart from such consideration, which is in the interest of the bank itself, our wealthy man can have no privileges allowed to him. As already observed, if he does not desire personally to put his hand to the plough, let him betoken his good will by depositing. Once in, he must in fairness take his place, as an equal, by the side of his comrades. Every man stakes his own liability, which to himself is worth quite as much as his neighbour's liability is to him, whatever may be the difference in amount of the two. Accordingly everybody must be allowed an equal say.

Organisation is in these little banks in its main features framed on the same lines as in the banks based on shares. Things are of course in general smaller and resemble more dealings among members of the same group of families. It is a common practice to elect a chairman at the General Meeting, who is of course not removable, as other members of the Managing Committee are in extreme cases, by the Council of Supervision. This is, however, not indispensable. It is liable to be abused for the establishment of one

man rule, which danger should be guarded against by proper selection and by careful checking by the Council of Supervision. But in practice it works well. It was, in truth, the original form of organisation adopted. The chairman under such conditions plays a more prominent part than he otherwise would do. Raiffeisen laid it down that once a good chairman had been secured and a man had been found to undertake the secretarial duties, a new bank might forthwith begin business. As to the most convenient size of the Committee, Raiffeisen as a standing rule preferred the number of five, and nine for the Council of Supervision. However, there is no reason why in a small bank a Committee of three should not suffice. It is not always easy to man these governing bodies to the full number with efficient and well qualified men. And efficiency and good qualification are necessary because — there being no shares, or only very small ones — very careful inquiry before a loan is granted becomes doubly essential, and the tendering of the employment of the loan as security for itself becomes accentuated. Something like the numerical proportion recommended by Raiffeisen should certainly be retained. The Council should in these banks consist of a larger number of members than the Committee.

Non-remuneration of officers is in these banks a standing rule never set aside. The reasons already urged as making remuneration undesirable become in the present application doubly cogent. The actual labour and expenditure of time are sure to be very much less exacting than in share banks. And it was a

principle with Raiffeisen that a man might well be expected to give the labour required, by which he himself will profit, for the benefit of his neighbours, without pecuniary reward. His aim was to keep out every consideration of self, all possible pickings. There must be no shares, in order that there might be no dividend, to set the interest of the provider of money possibly in opposition to that of the applicant for money, and convert the "borrowers' bank" into a usurer's trap. There must be no remuneration, in order that things might be kept pure and done cheaply; and that there might be no inducement for any office holder unduly to favour any applicant who might threaten to use his vote in the re-election of the Committeeman as a revenge for refusal. The salaried office might be worth something to its holder. And there must be no divisible reserve fund, in order that there might be no inducement to wind up the bank for the sake of the spoils — as has actually happened in co-operative societies with large surpluses, Raiffeisen's own first "loan bank," formed without such safeguard, among the number. In the event of the bank being wound up, it is laid down by general rule, which is regarded as sacred, that the reserve fund must remain intact, to be employed for the endowment of a new bank to be formed some time or other on the same lines and in the same locality, or, failing that, to be laid out in some public work benefiting the district. As regards payment of officers, there is one man only who may be paid — but that should be at a moderate rate; and indeed the little bank can never afford more.

That man is the secretary or cashier, or accountant — in Germany they call him *rechnner* — or whatever else you may choose to call him, that is, the man who as a subordinate officer carries out the behests of the Committee, keeps the books, pays out the cash and receives it in its turn. But this man must not on any account be a member of either Committee or Council, or have any say in the disposal of money. Other officers may be refunded out-of-pocket expenses, which as a matter of fact rarely occur. It is, by the way, a mistake to multiply offices, as has been proposed in England, and as is suggested in some of the new Acts passed in the United States. The bank is a simple institution and wants to be simply organised and managed.

The functions severally of Managing Committee and Council or Supervision are in substance the same as in the banks already spoken of. However, in either case inquiry and control will have to be more searching, because that in fact constitutes to a great extent the security offered. To bind the borrower all the more compellingly to the employment named by him and approved, it is laid down that in the event of his misemploying the loan the latter may be called in at short notice — in Germany within four weeks; in Italy, where the loan is granted each time for three months only, with a promissory note for that term as record — although it is understood that there are to be renewals — on the maturity of the current promissory note. I have not heard that this provision has been put to practical use — which shows all the more clearly how

effective it has proved as "a rod upon the mantelpiece," a menace to evildoers and a safeguard for proper employment.

For its supply of funds the Raiffeisen bank relies, first and mainly, like the Schulze-Delitzsch and Luzzatti banks, upon deposits and other loan capital — indeed more so than they, because it has no shares. Shares are indeed no contraband in Raiffeisen banks. But they are not necessary. And in any case principle requires that they should be small. The German and Austrian legislatures have forced shares upon them, and the French is now endeavouring to do so, for reasons of its own, by threatening to withhold State advances from non-share-issuing banks — which of course leaves such societies as M. Durand's genuinely Raiffeisen banks free to pursue their own path without State support but is resented as casting a slur upon a useful institution. In Italy a fussy district judge has ruled that there must be shares, to comply with the law. And, not to incur the trouble and cost of an appeal to a higher tribunal, that particular bank (at Crema) has issued shares — of two cents. In Germany the banks have answered Prince Bismarck's studied compulsion by limiting shares to 25 cents — of which shares every member is permitted to take up only one — and signing away all possible dividend (limited as it is) for subscription to its Union paper. In Austria shares are commonly of about 50 cents, with the same proviso. In the absence of share capital the little bank will have to do all that it can to attract deposits — from any one in the district, or even out of it, be he a member or no.

That, as it happens, is not a difficult process. For people in the district soon come to love the little bank which brings their district benefit, and the good effects of which they may themselves observe any day in the district. People like to have their savings administered by men of their own choice and under their own eyes. However collection has in any case to be proceeded with systematically. It is very common to have collectors going the round from house to house, with savings books or tokens, and gathering up small sums which in course of time come to total up to something substantial. However for its first funds, until a Central Bank is formed capable of appraising the security created and lending upon it, the bank is likely to have to look to wellwishers, in the shape of specific loans or fixed deposits, to provide working capital.

Both in the matter of collecting funds and employing them the essential difference between the Schulze-Delitzsch principle and the Raiffeisen, about which there has been for so long time an altogether gratuitous hurly-burly fight, becomes very plainly apparent. Schulze-Delitzsch — and like him M. Luzzatti — rely upon quick and active business, in which money passes freely across the bank's counter, coming and going. The money which their banks receive is for the most part withdrawable at very short notice or without any, and cannot accordingly be lent out for very long terms. Raiffeisen pledges the collective unlimited liability of all his members, which goes on and remains steady. He does not want to have more cash on his hands than he can employ, because that would mean loss of interest.

But he wants a fund which he can at any time pledge as occasion may require — just as a State pledges its credit by issuing Treasury Bills or contracting new loans. Members' collective liability in fact answers the purpose of a Consolidated Fund. The stock for credit is always there. Members of the bank are aware that they pledge it and exercise caution accordingly. And lenders know how it comes to be pledged. Even unexpected withdrawals of deposits could not ruin our bank, once it has made appropriate arrangements with other banks — such as will still be spoken of. Such arrangements provide it with a credit reserve upon which it may draw when its own funds give out, because its security is there understood.

This difference in policy accounts for a rather marked difference also in the practice of loaning out money, which has long formed a stumbling block to the strictly businesslike followers of Schulze-Delitzsch. Raiffeisen has a different public to deal with than they, who borrow in many cases for a different class of objects. He must keep the possibility in view of having to deal with very poor people, without capital, such as Schulze-Delitzsch would not have in his banks. For such the loan is to yield economic benefit, create some new value. If it is to do this, it must necessarily be sufficient in amount for effecting its intended object, and it must be lent for long enough to have time to do so. If the man who wishes to carry out a \$100 improvement or outlay, is lent only \$90, or if, when the return can come only in two years, he is allowed the use of the money only for eighteen months, the intended

benefit to him becomes altogether illusory — nay, negative, supposing that he accepts it. For in the first case the work will be carried out so as not to produce the desired profit — the ship will have been spoilt for the sake of a ha'porth of tar; and in the second he will, before reaping the promised fruit, have to tax some other source of income or liability, in order to meet the claim of the bank. Here is a marked contrast. The share bank takes care that the money lent is well employed; but after all it lends on the financial goodness of the borrower and his business. The unlimited liability bank is careful to see that it has a trustworthy borrower to deal with, but it lends distinctly on the security of the employment proposed. That is one reason why, unlike a well developed share bank, the Raiffeisen bank will have to be extremely chary in the use of current accounts, which debar it from exercising the same minute control over the employment of every grant of money. We have not very far to go, as it happens, to observe the prejudicial — it may be fatal — consequences of a resort to current account practised in the wrong place. For those disastrous collapses of co-operative banks in the Union formed by the late Dr. Haas, which have set the European Continent ringing again with cries of distress, are distinctly traceable to lax practice, one of the features of which was habitual over-complacency in granting credit on current account, for the very insufficient reason, frankly owned to in the published paper of the Union, that inquiry in each particular case, such as Raiffeisen prescribed, was found troublesome, and it was easier to grant a

standing cash credit. Easier it is, no doubt; but it also makes the loss of money very much easier. When you set yourself to raise money, as the veteran economist M. F. Passy put it, "without a capital of guarantee," trouble is a thing that you must not grudge, or you may be made to pay for it. Unquestionably Raiffeisen's system causes trouble; but it enables you to do what, not under any other system, you could accomplish.

The proper course is in every instance, before lending, to inquire — and inquire very carefully — into the use to which the loan is to be put. Under this aspect there are two points to be taken into account. The first is, whether sum and time asked for are such as the proposed employment will justify. And the second, whether the employment is a proper employment for the particular applicant to take in hand. The bank is there to assist its members in the pursuit of their legitimate business, not to finance them in risky speculations. To a certain extent it goes into partnership with the man who operates with its money; so it has a good right to have itself advised about his venture. A peasant may be right in wanting to buy a cow or a pig or some implement; a co-operative bank would be untrue to its principle if it were to support him in laying down a stock of corn, or sugar, or anything else in expectation of a rise. That point apart, the bank wants to judge if the proposing borrower asks for the right amount, and asks it for the right length of time. If his proposed purchase is a cow, he wants a good animal, but not necessarily a pedigree beast, as

if for a show. In the Swiss *Viehleihkassen* (*Caisses Thurgoviniennes*), which in their district do a deal of good, the (civil) parish, acting as a co-operative bank, with the unlimited liability of all the parish at its back, buys the beast, at the borrower's choice, but subject to the approval of its own veterinary surgeon, and does not part with its legal ownership of it till the money borrowed is fully repaid. A bank cannot proceed in quite the same manner. Besides, it has the man's sureties or other security to back up the loan. It will take care that the beast is insured in an office approved by itself. But it will trust the sureties to see that the man does not throw his — or rather their — money away upon an unsuitable beast. However it will not allow him more than is necessary for the purchase of a good, useful beast, nor allow that for longer than the money, transformed into the shape of a cow, will take to reproduce itself. And it will act in the same way in any other case — purchases of manure, or seed, or land, or digging a well or draining a field. The particular case may require six months or else ten years. There are also non-agricultural purposes to take into account — poor folk, men and women, of good character, wishing to be enabled to work themselves up, it may be through hawking as a beginning, to the possession of a little shop, or business, or of a farm. There are plenty such cases on record that have been successfully dealt with in Italy. There is a case, which I have related elsewhere, which occurred at Loreggia, near Padua, the birthplace of the Italian Raiffeisen banks, of a poor, seemingly bankrupt peas-

ant, assisted at first only with a loan of \$20. Bit by bit he got on, to become in the end a thriving little farmer, with beasts in his stable and money in the bank. However all these cases want to be inquired into. The Committee would be wrong in lending where there is no prospect of recovering. In India the question has been much debated whether money should be advanced by co-operative banks for those famous Hindoo weddings, which often result in the pledging of the still ungotten babe, to result from the marriage, to the money lender, as security for the loan — which pledge is loyally honoured by the hapless mortal still to see the light; or among Mahomedans for a *sradh* or funeral. Both these functions are considered *de rigueur*; and there must be feasting with them, in which the whole village will join, and to which accordingly every villager will lustily egg on, to the money lender's satisfaction. My advice was to allow such loans in *suitable* cases. And what I predicted has come to pass. Instead of the villagers urging the borrowers to borrow much, as they had previously done — the money lender helping — in order that every one might have his full share in the feasting, the fellow members in the bank now carefully restrain the founder of the feast from practising extravagance. He borrows the money required from the bank. And they know that they might have themselves to pay for his liberality. The man now still borrows, so as to keep even with custom. But he borrows at less per cent., and less money, and curtails the feasting, so that he no longer has any need to pledge his unborn grandchild, but can comfortably

repay the money in a few years. Presently he will come to have the requisite money ready beforehand. But we do not advance by seven league bounds. Where there is previous indebtedness, co-operative banking comes in as a saviour indeed. That was the original object of these little banks in Germany and Italy. Mr. Cent-per-cent kept the peasantry in peonage. The bank stepped in — by a process as old as the hills, which the ancient Romans styled *versura*; and the margin between 5 per cent. and 50 or 100 per cent. made all the difference in the world. In India these debts used to drag on from generation to generation. So accustomed had men become to them that with a fatalist's patience they bowed to the ordeal as to an ordinance of Providence not to be resisted or evaded. Now a few years' thrift will relieve the debtor, who finds new hope springing up in his breast. However for all these things careful discrimination and weighing of prospects and likelihoods have to be practised, such as the Committee, under a sense of its own responsibility, kept alive by Council and General Meeting, cannot grudge or stint.

In respect of repayment it is of the utmost importance that borrowers should be held to the strict fulfilment of their duty, not merely on business grounds, so as to enable the bank, which has to be chary of the use of its — borrowed — money, to keep accounts square, with as little loss of interest upon cash in hand as can be, but also to train members to business habits, which help them subsequently in all that they do. Really anything may be forgiven rather than remissness in repayment. The loan may be renewed — but that will

be by consent of the bank, upon cause shown. The debt may be repaid and a new one raised — but that will be for a new object, which will stand for itself and be considered by itself. It is much better that this should happen than that loans should be allowed to run on unexamined, as if they were current accounts. The bank should be apprised of every object and its approval should be asked. Whenever the debt runs on for any length of time, it ought to be made a rule that it be repaid by instalments — best equal instalments spread at regular intervals over the period agreed upon.

The bank will have to make sure of its security and in every case to obtain the notice of assent, on some proper form, from the sureties themselves and see that everything is shipshape.

To be able to deal with all these cases the managing committee should, as already observed, be in a position to give prompt attention to applications. It is a mistake to overburden its meeting with a cumbrous agenda. The district is small, the people in it are known to one another; cases as a rule speak for themselves. Time may be of moment. Here is a heifer offered at a cheap price for to-day. There is a tempting opportunity for the purchase of some other article of equal urgency. The man ought not be made to wait. Where, as in some villages in France, there are only three members to the managing committee, these may consent on the spot, the chairman obtaining the approval of his colleagues on a morning or evening walk through the village. With the fear of a strict Council

before their eyes, these men are not likely to consent to a wrong venture. Regular attendance of some sort, to take deposits and receive applications, are of course desirable. And it will be for the benefit of the bank and its members if the Committee meet regularly. That will enable them to answer questions such as every member of the bank has a right to put. For, as observed, there is nothing to be kept secret about the bank's doings except the deposits. The weekly or fortnightly balance sheet should be hung up in the office for any member to see. However, provided that the Committee make arrangements for dealing promptly with any cases arising, they need not tie themselves down slavishly to any fixed days.

The office of the Council is to overhaul all that the Committee has done, as well as to audit its accounts — which last named function may in a little bank like that here contemplated very well be executed by persons who are not skilled accountants. The overhauling as well as the auditing is done in the interest and on behalf of the members generally, as a kind of pre-cognition. Members cannot at their general meeting go into details. The big blocks which they are set to work upon require to be broken up into pieces of manageable size. It is a mistake to make light of this function, as if it were mere surplusage. Many a bank, so it is true, may go on very well without a Council and never come to grief. However, on the other hand, wherever there has been a breakdown, wherever there has been money misemployed or embezzled, it has invariably been because there has been

no Council or — which comes to the same thing — because the Council has not done its duty, has taken things for granted. Checking is the soul of co-operative credit banking. You cannot do without it. And it must begin on the lowest stage. The Council knows its own ground. It knows the people in the bank; it knows their circumstances; it can judge whether the Committee has trusted any of them too much. And without being offensive, it can hold the Committee to strictness in the exercise of its functions.

Both Committee and Council at the end of the year report to the General Meeting, whose authority is of course supreme in the bank and whose consideration of questions affecting the bank ought to be encouraged. The two reports may deal with practically the same things, but they will deal with them under different aspects. The one tells the facts. The other comments upon and explains them.

There are certain questions specially reserved for the judgment of members generally. The point of dividend does not here arise, nor yet the point of carrying surplus to reserve. For all that is settled in the general constitution of the bank. Where there are shares, an infinitesimal dividend may be allowed, limited to a maximum figure — which dividend ought to be earmarked in advance for some particular and non-egotistical object. Otherwise all surplus goes to reserve as a matter of course — or it may be, in course of time, to several distinct reserve funds. But there is one reserve which always will be of chief importance. The name originally given to that reserve was “Endow-

ment Fund"; and that name correctly expresses its object. For the moment it acts as an ordinary reserve fund. That is to say that for any deficiencies arising it may be drawn upon as a matter of course. However the German law very properly provides that it must not be drawn upon concurrently with dividend being paid. All surplus on the annual account must be absorbed first. As time goes on, however, the reserve fund is, so far as it will go, to serve as an "endowment" for the bank, become its capital — "capital of guarantee" at first, to attract other money; afterwards, when it becomes large enough also "working capital" — so that in that case the ideal of some men (M. Luzzatti among the number) would be realised, of a fund being in existence subject to collective ownership only and therefore permanent. On this ground it will, beyond a certain limit, not be necessary to safeguard the reserve too rigidly against employment as working capital. There must of course be a reserve fund which is not so employed, but kept intact in a readily realisable shape, so as really to serve as a reserve. However these funds have, under favourable circumstances, a way of growing which sometimes makes them very substantial for their requirements, and really too big for ordinary reserve purposes. That is especially so in Germany, where, freehold land being fairly distributed and readily saleable, dealings in real property will frequently take place among small folk, most generally in this sense, that a man acquiring land makes himself liable for payment of the purchase price by instalments for which he gives staged off bonds, which

bonds the vendor used to dispose of to "Jews," who often proved exceedingly exacting Shylocks, foreclosing mercilessly upon an unpaid instalment. Now the co-operative bank takes up the instalment bonds and the purchaser is safe, even if he were not to keep up all the paying terms to the very day. There is another kind of real property business sometimes engaged in, which occasionally brings in much money to the little bank. A property in the market is surveyed and provisionally pegged out in lots. These lots are put up for sale at a mock auction, which binds the bidder but does not bind the bank. Supposing that the bids come up to the offered selling price or more, the bank purchases the property and resells it according to the bids made. That has, at times, yielded very substantial profits. Where such dealings with real property are not feasible, the reserve fund will of course accumulate more slowly; but under good management, with no drawing upon it for deficiencies, it should still gather volume steadily. Many crumbs make a loaf.

Such operations as the mock sale just referred to had, at any rate in the earliest stages of the life of a bank, much the best be left to the decision of the General Meeting. The General Meeting will furthermore have to determine from year to year for what amount of lending it gives the governing bodies authority. To the outside public the liability of members is unlimited. Inside the bank members ought to limit it for themselves, say, what is to be the maximum amount loanable to any one among them, and, it may be, also, the maximum amount to be loaned out collectively. That adds

greatly to safety. There is likely to be a maximum fixed by the law of the land. However the bank may desire to go below that. Supposing that a maximum is fixed, the Committee can obviously exceed such only on its own responsibility. The bank will not be liable.

In other respects it is better not to tie the hands of the Committee overtightly, say, with regard to the rates of interest severally on deposits and on loans. Decision by the General Meeting is a process which takes time. Circumstances might demand prompt action.

What has been said will give, in outline, a general idea of what an unlimited liability bank of the Raiffeisen type is intended to be. There are minor details which are rather matter for specific rules. For a descriptive account of the remarkable good that these banks have done this is not the place. That has been given elsewhere.¹ It will be seen that, if on the one hand, these banks can by no means claim the distinction of being — as is sometimes given out — the only type of banks qualified to benefit Agriculture, they have, on the other hand, an immense province of the most useful and beneficent work specially assigned to them, as distinctively their own, among the humble toilers in country districts. They were never intended for dense populations in towns. And they were never intended for individually large business. Their work is altogether "detail work." But it is the work of the single bricks which collectively make up the big building. It is work which no other institution could per-

¹ See the author's "People's Banks: a Record of Social and Economic Success." Third edition. 1910.

form with anything like the same thoroughness or success. They are more successful and more efficient by far than purely philanthropic organizations, which deal out gifts or what may under stress of necessity become gifts, because they throw the man to be benefited upon his own resources and his own efforts and, together with economic good, endow him with more valuable and lasting possessions, a strengthened character and businesslike habits. There might be room for them in the United States. And, it may be added, they have never gone anywhere — in the right place, where there was need for them — but they have yielded the same benefits and really astounding results.

CHAPTER V

CENTRAL INSTITUTIONS

VERY little practical experience sufficed to bring home to the pioneers of the co-operative banking movement in Europe that, useful as were co-operative banks in their separate existence, union among a number of them must add greatly both to their stability and to their permanence, valuable attributes that these are, as well as to their utility. On the very face of things, it must strike people reflecting on the matter as almost self evident that, if co-operation among individuals is good, the extension of the principle to the point of co-operation among co-operative organisations must not only be fully in keeping with the character of the institution, but must also add considerable force in precisely the same way on a wider basis.

Now, combination or union may be in this connection effected in two distinct ways which will have to be considered separately, although in practise their services may occasionally without detriment be to some extent combined.

In the first place there is union without any thought of business, mainly for common consideration of common ends, the comparing of notes and experiences, the study of new departures, uniformity within the ranks

of the movement, propaganda, united defence of common interests, watching of legislation and the like. There is no movement comprising a multitude of members, which will not be the better for union of this sort. The remarkable success achieved by German Unions for the promotion of German credit, which have studied common action from a very early period of their existence — the Schulze-Delitzsch Union was the first co-operative union to be formed at all, as long ago as in 1859, preceding by a full decade the “Co-operative Union” of the United Kingdom — goes far indeed to support this assumption. Not only have the many organisations forming part of it derived unquestionable economic benefit from such union, and has the progress of the movement been decidedly accelerated, but, once union had come to take full effect, the banks of this type have issued from the process with a pronounced stamp of uniformity and a *cachet* of quality impressed upon them, which have greatly added to their standing and credit, making business much easier and actually inspiring envy in others. There are as excellent banks among the Italian *banche popolari*. M. Luzzatti, their founder, will have it that the best of them even excel the best German in co-operative character. But he himself admits that in the ruck they do not come up to the same standard. That is simply because there has not been a union to teach every one of them what the others are doing, to whet the intelligence of the administrators, by bringing them regularly to compare notes with colleagues from elsewhere and — above all things — to exercise a moral authority and discipline over

them and so make for homogeneity, mainly by that admirable institution, union inspection — of which there will be something more to say in the succeeding chapter. Suffice it here to point out that at the annual congresses of the Union the sittings of the Union Inspectors, discussing common experiences in inspection, form one of the most interesting and instructive features. Late in the day, accordingly, has M. Luzzatti, quite recently, addressed himself to supplying what is lacking in Italy, in the shape of an organised union and inspection by union officers. A Union speaks and acts with authority — within its own ranks and without. It represents the considered, the carefully matured opinion of “the movement.” That opinion is likely to be correct, because it is based upon most varied experience and upon the reflection of many expert minds. Legislatures cannot pass it by. Political authorities cannot ignore it. And, for the movement itself, in the multitude of counsellors there is likely to be found wisdom — and, in this case at any rate, also disciplinary power — disciplinary power which is moral, but which might, in extreme cases, find its expression in expulsion — such as could not fail to impair the status of the bank expelled. Union accordingly makes for strength, and quality, and authority, and deserves to be practised wherever it is possible among organisations of the same type, more particularly in a movement which necessarily relies on recognised status and as necessarily aims at propaganda. In Germany, although of course there is no compulsion or even pressure of any kind used to make societies enter

a union, and although there are some very good banks which have remained outside, nevertheless co-operative banks generally have gained greatly by union and are aware of the fact.

In the second place, there is union for business purposes. Relatively strong in capital as a successful co-operative bank may be, in its absolute financial power it will necessarily fall short—possibly by a great deal—of the status of a capitalist institution of the same sort. The difference will necessarily be accentuated by what practically will be the amateur character—from a business banker's point of view—of the managing officers in the movement. The latter does not want and could not maintain fully trained bankers. Its objects are different from those of capitalist banks, its transactions are more circumscribed, it looks for different services, such as a trained banker in many cases conceivably could not render, but the lack of which may place the co-operative bank at a disadvantage in the great banking market.

Now at this point, just as in the union of members to a single bank, combination may with certainty be counted upon to make good at any rate much of that which is wanting. It makes the single dollar go further and produce more wealth-creating work—like the gold lodged in the cellars of a great national issue bank, say, the Bank of England or of France. This consideration comes all the more weightily into account in an institution which may have a certain amount of hostility and opposition to encounter. It may become a case of "United we stand, divided we fall." The re-

sources of each individual bank are, as already observed, likely to be circumscribed. The small capital of each may not at all times be sufficient by itself for the calls made upon it — while its neighbour may at the same time be wallowing in money. Let the two join hands, and combined they will be able to achieve very much more than in separation, each by itself. And the broader the basis, the more comprehensive the union — which is perfectly feasible without interlocking of liability, such as must needs be kept apart for every member-bank — the more marked will be the strengthening effect.

It may be well from the outset of the present consideration to call special attention to this aspect of the question, because another, false, aspect has been more and more forced into the foreground, which has *pro tanto* led the issue on this particular point upon perilous ground. It is above all things as a *balancing centre*, a clearing house, that a central organisation for business purposes among co-operative banks is wanted — to make the capitals and machinery of the banks united supplement one another, thereby achieve more, to act as a bank of banks, in which local banks may have their several accounts, the funds, being available for common use under separate responsibility, becoming serviceable for all — just as in the banking department of the Co-operative Wholesale Society of England (a most successful institution) and the surplus funds of the members of that body, the local societies, collected into one common cash box, suffice for the use of each individual one — and for very much more.

There is more, besides, that union for business purposes may accomplish. We possess the proof, once more, in that distinguished Union, the Union of co-operative banks of the Schulze-Delitzsch type in Germany. These banks have, solely by means of union, secured — outside the business sphere of a central bank — for their members most valuable banking benefits. They have been among the first to acclimatise the cheque in Germany, and with the cheque also the clearing house, among themselves. They have introduced a common collecting union — which is found most valuable — banks within the Union undertaking to present bills, acceptances and cheques for payment and collect accounts free of charge for one another throughout the Empire. They have worked out for themselves that system of society inspection which has now on the European Continent become a common rule and is at present insisted upon by legislation. They have likewise, not to carry the catalogue of their services any further, organised a regular information and inquiry service for members of the Union. Bill drawing, or else (in the South) presentation of acceptances, are common practices all over Germany. Scarcely anything is done in business without the use of such instruments of credit — all the more since cheques are only of very recent introduction and even now far from general. Of course these instruments of credit are abused. There are bucket shops in Germany as elsewhere. And time was when co-operative banks suffered serious loss by their fraud. The information service has set that right — for the Schulze-Delitzsch banks.

It has become so widely spread and so searching in its inquiries that "Othello's occupation is gone," or all but gone, so far as united co-operative banks are concerned.

But these are really only adventitious services, over and beyond the principal one, which is, as already indicated, that of providing a balancing institution, having the character of a central bank, in which overplus and deficiency occurring in the several local banks may be equalised. There is an additional service which may be demanded from such an institution. Times will come when even the collective means at the disposal of these combined banks will prove unequal to an exceptional demand for credit—just as there have been times when there was too much money and too little business. In such emergencies a central bank will be far better able than individual banks, and on more favourable terms, to place itself into communication with the great money market, to unload there the excess of collected funds, or else to tap it by borrowing for the benefit of its affiliated societies. It will represent greater strength than they and therefore obtain better terms and operate with greater ease and freedom. And it will also be better qualified for such business on other grounds. The banking of local banks is distinctly a different kind of banking from that of the great banking world. Its practises are different and its wants are different. It is built up upon a co-operative basis, which will be all the better for its own purposes the more genuinely co-operative it is—which is admirable for safety, but ties the hands of administrators not a little. In Germany where, among co-

operative banks on a share basis, commercialism is often strong, banks laying themselves out for larger and more varied business have sometimes found co-operative organisation restricting their capacity for quick action, and have therefore — ill-advisedly — forsaken Co-operation, to become joint stock companies. Their directors have freely owned to me that they get on much better on this footing. No doubt they do; but the members have thereby lost the valuable — almost invaluable — possession of a bank of their very own, the services of which they could claim as a matter of right and the management of which they could control.

A central bank will necessarily assume to a far greater extent the character of a commercial bank. It is to form the connecting link between co-operative and commercial banking. Its business will be to understand the system of co-operative banks and adapt itself to it, but also to deal for them in the great banking market. It will in fact have to render the same service to its affiliated banks that a “transformer” in the electric service renders to subscribers to that service, converting the “high tension” current coming to it from the generator into “low tension” current for practical use at the several stations. Its officers will have to be trained for the business of the wider banking market; they will be more of trained bankers. And, being a bigger bank, the central bank can afford to employ such.

Unfortunately this “tapping” and “financing” business has come to be given the precedence over the balancing action in only too many quarters. There can be no question that newly formed co-operative banks

often experience difficulty in raising the requisite first funds. Schulze had difficulty of this sort to contend with; and so had Raiffeisen. And in respect of Italy the good services which the free Savings banks of that country, and also the commercial banks, have rendered to co-operative banks in their early years — although, as M. Luzzatti has repeatedly insisted, not as a work of altruism, but in their own interest — should not be forgotten. But co-operative banks, as national authorities here and there held, it was desirable that there should be. Accordingly it has been judged advisable to endow special institutions for them, to provide the first nourishment for the newly born babe. And, as habits grow upon people with continual use, such “sucking” of the motherbank has become a recognised and confirmed practice, carried far beyond the limits of babyhood, and accepted as a permanent benefit, an enduring foundation for the fabric raised upon it — to the loss of all the more valuable benefits of common action and the renunciation of all genuine Co-operation.

This abuse apart, central banking institutions, although in no wise indispensable, have proved exceedingly useful organisations, presenting however in their creation certain difficulties — for which reason it is all the more desirable that their systems and benefits, and the dangers to which they are exposed, should be briefly explained.

There are, in the main, three distinct schemes of organisation to be taken into account, each of which has its own advocates. As a common rule for all it may be laid down that in this application unlimited liability

is not admissible. There can be not the slightest doubt about that. Unlimited liability has had to be resorted to before limited liability had become legally recognised, and it has answered badly, as in fact it was bound to do. For the conditions for its successful application are in this connection wholly wanting. Of necessity it has in this case to be exercised without the full knowledge and consent of those upon whom its obligations ultimately rest. The body which administers it will necessarily be distinct from those who answer for it. That body may be properly elected by them. But there cannot possibly be the requisite touch between the two. You can, with safety, make yourself unlimitedly liable only when you have knowledge and full power of control with regard to whatever is being done. That cannot be in a central bank, in which the liability of various banks, and through them of their members, must become prejudicially interconnected and entangled, so that no one will quite know what he is responsible for. As the Latin proverb has it, "the pig may be made to pay for what the dog has done amiss." Liability must in every case be limited, and it will best be limited to the actual amount of the share; for then there will be no power of payment left in doubt.

Another general rule is, that in a central bank co-operative organisation is out of place. Co-operative spirit there should be — distinctly so. But the legal form of the organisation should be that of a joint stock company. That has likewise been made clear by extensive experience. For a larger body joint stock or-

ganisation provides far greater freedom of action and the difference made in the form of registration will serve to emphasise the essential difference in the character of the two institutions and their separate responsibility, each one for itself.

This being premised, it may be said that the proposed central bank may be either a bank of banks — started, so it may be, with some private capital, but certainly destined eventually to become the property of the banks to which it ministers, they being its shareholders and governing it through their elected Board. The Central Bank of the Raiffeisen Union is an organisation of this sort; and so is the Central Bank of the excellent co-operative banks of the Schulze-Delitzsch type in the Polish provinces of Prussia, which on political or racial grounds form a distinct union.

Or else the central bank may be a bank primarily of the capitalist type, owned by shareholding capitalists — with some representation given to the co-operative societies with which it is proposed to do business — but created to do business of a general kind on its own account, though opening accounts also, as a special feature, to co-operative banks, taking their overplus cash and supplying them with credit as occasion may require. Such a bank was that of *Sörgel, Parisius and Co.*, which for a long time served as a central bank for the German Schulze-Delitzsch societies. Such — in a manner — is now the powerful *Dresdner Bank*, which in such connection has taken the place of that just mentioned, in so far as, after amalgamating with *Sörgel, Parisius and Co.*, it has instituted a separate co-opera-

tive section, to the Board of which it has admitted representatives of the co-operative banks to be dealt with, as directors. That same bank also acts in a similar capacity, so it may at once be mentioned, at the back of their own Central Bank, for the Raiffeisen societies.

In the third place there are central banks formed altogether with outside capital, whether public or private, as wholly independent institutions for the benefit of co-operative banks, which they merely undertake to "finance," as a business of their own, to bring them profit, or else as an act of patronage. In this shape the idea of a balancing centre becomes relegated to a second place or else, it may be, altogether neglected, and the primary object of the central bank becomes that of "financing," providing local banks with money. That is not a genuinely co-operative object. It is accordingly not at all approved of by co-operators believing in self-help. Of this type are the State-endowed Central Co-operative Bank of Prussia and several other banks formed in imitation of it in other parts of Germany, and the Central Banks of Roumania and Hungary, and — although it is not a bank in form — essentially also the French *Crédit Agricole*.

Now of these three types the first presents itself as the most natural under the circumstances, an institution which plainly explains itself. It is Co-operation carried one step higher, from co-operation among individuals to co-operation among co-operative societies formed of such individuals. One drawback to it is that under such conditions it is not always easy to collect sufficient cash — which difficulty has all the more

to be taken into account since the business of the central bank must under the co-operative principle which dominates it, be so ordered as not to produce much profit. Co-operative business is safe business; but it is not highly paying business; and it may be slow. Therefore it demands in the central organisation a certain command of money to be depended upon, upon which local banks may draw as need suggests. But a collective bank formed of purely local banks, which were themselves formed by members whose impelling motive is their want of cash, is not likely quickly to accumulate such. Another drawback is this, that under such arrangement you practically set men who may be excellent co-operators and capable of administering a co-operative bank on the lower plane to perfection, to act under great responsibility in a province not at all their own, that is, as commercial bankers. That is a dangerous experiment. The Polish banks have surmounted both these obstacles because, in the first place, they have a strong nationalist feeling at their back, which is constantly being stimulated by German persecution and which prompts sacrifices for the "cause." Moreover they are all share banks, disposing of fair amounts of money. Also, for their simple purposes — the "balancing" action predominating altogether — they are very efficiently organised and well officered. The Raiffeisen Central Bank has had occasional trouble about the provision of money; but, generally speaking, in its proper capacity, as a central bank for local banks, it has answered exceedingly well. And its very trials have brought out with telling force the substantial re-

sources which Co-operation places at the back of its institutions. To say that "it has had its occasional troubles about the provision of money" does not at all mean that in general its credit has not sufficed for its wants. So strong, on the contrary, did it feel in the possession of its credit resources that, in 1895, when the Prussian Government set up its State endowed Central Bank, it flatly refused to enter into relations with it, because it knew very well how to supply itself with money without such help. So strong was its financial position that the Imperial Bank of Germany allowed it preferential discount terms. It was eventually prevailed upon to accept State bank credit, Government pressure proving overpowering. But not many years passed before it saw reason to regret such yielding and it lost no time in throwing off the promised "support" which had revealed itself as a galling yoke. As a central bank for village banks the Raiffeisen Central Bank answers its purpose perfectly. As a central bank for large quasi-commercial banks like those of Schulze-Delitzsch and M. Luzzatti it would probably answer less well. But it is very suitably adapted to its own peculiar environment. And the very centralisation on which it is based, which is sometimes found fault with by adherents of other schools, is altogether in its favour. For that centralisation ensures uniformity, general acceptance of the same principles and methods, and it enables it to "balance" among districts far removed as well as among individual banks. The benefits are very apparent. Operating all over Germany, the Central Bank has to do with districts marked by absolutely different

features — some densely populated, industrial and agriculturally highly developed, “intensive,” like those in the West of the Empire, where money is plentiful and cheap and deposits are voluminous; others sparsely populated and primitive, in which industry is practically unknown, and agriculture extensive and backward, such as those in the East, bordering more or less upon Russia. Since the Central Bank operates, not for profit, but for service to local banks, and there are no intermediate tolltakers — as there would be if the business were not centralised — it can readily make the overflowing deposits or cheaper loans of western districts available without a rise in interest for the wants of the eastern. This, so it needs not to be pointed out, has been found a valuable benefit. And such services as this tend to keep the Union “together.” There may be room for similar services in the United States. Under the organisation of the Raiffeisen Central Bank the sectional offices are branches, not independent establishments. The reins of the business are held with a firm grip by the central establishment. The ruinous disasters which recently clouded over the horizon of co-operative banking in Germany occurred, not under centralisation, but quite the reverse, under the sway of the independent system, which was set up in opposition to the Raiffeisen system, which prides itself upon its distinctive feature of Decentralisation and which makes every district bank its own uncontrolled master.

The fly that has in the Raiffeisen Central Bank eventually been found in the ointment — on two several occasions — sprang from an altogether different breed-

ing place. The gentlemen who presided over the Central Bank were good men, but they were not expert bankers, in the accepted sense of the term. They were animated by great co-operative zeal, which prompted them to offer help to co-operative institutions of their Union beyond what was safe. The heap of gold under their management dazzled them. Was there not "corn in Egypt"? They did not realise what heavy claims there might be made upon that hoard. Also in their optimism they made light of risks in other ventures, carried far beyond what co-operative ventures should be — which risks eventually found them out. To begin with — under temptation — they made the mistake of bracketing dealing in goods with banking. There was probably more provocation for this than the mere difficulty of finding any other body to take over the central trading. The circumstances were peculiar. Raiffeisen societies, as already observed, are not banks only, but societies for all purposes. The Central Bank had become their recognised centre. That was good enough while the main business consisted of banking. But trading had meanwhile assumed larger dimensions and called for a central organ. That collective trading had up to the time spoken of been conducted by Raiffeisen himself and some people in his confidence, acting as a private firm, but not for profit. Their conduct came to be called in question by opponents. They were said to be making broad their phylacteries of altruism while netting a very good profit for themselves on the sly. To meet this slander they resolved to hand over the business to some electively organised,

responsible body. Now was it advisable to start a second "centre"? The leaders of the societies thought not. Besides, the bank, as a bank, had in early days a struggle to carry on. Its business was safe, but left little margin. There was the central trading. And there was as yet no organised body to take it in hand. Things were simple in those days. Trading, as the immense capital amassed by the two great Wholesale Societies of England and Scotland sufficiently demonstrates, yields ample profits. The trading would permit the Central Bank to render its services all the more cheaply. Precisely the same combination was subsequently adopted by the Haas Union. All the same this was a huge mistake, which I denounced rather emphatically in a paper that I read at the International Co-operative Congress held at Buda Pest in 1904. Both unions named abandoned it shortly after, and both are the better for the change. But what mainly damaged the Raiffeisen Central Bank was its stepping outside its own province — with thoroughly good "co-operative" intentions — to buy sites in advance for co-operative works and warehouses still to come, to run unprofitable superphosphate works, and to prop up with its credit shaky co-operative undertakings which should never have been entered upon. All this was, not Co-operation, but Speculation. It brought about a crisis. However the value and sufficiency of the Central Bank as a central bank was promptly and all the more conclusively demonstrated by the remarkable ease with which it recovered from the blow — a heavy one — saving up money rapidly out of its annual surpluses

such as places the early repayment, with interest, of the contribution of \$187.50, which had to be asked for, as a voluntary levy, from each of the more than 4,000 societies affiliated, altogether beyond doubt. As a central bank proper the Raiffeisen Central Bank has won its spurs. Its new arrangement with the great *Dresdner Bank* — after its rupture with the ever domineering State-endowed Bank — renders its position as secure as well can be. It leaves it to deal with its local banks alone and commits all dealings with the banking market to that commercial institution very much better equipped and qualified for such business. Within the limits of safe banking it secures to it an almost unlimited command of money, as well as a receptive lodging place for excessive deposits.

The second form of central bank possesses, like the first, just discussed, its distinct recommendations, but for different circumstances. It was Schulze-Delitzsch's favourite form. He laboured hard to carry it into realisation. Co-operative banking business being only sparingly remunerative, a central bank well endowed with capital, to live, required other business to assure its existence. Being safe, on the other hand, co-operative banking business constitutes an excellent extra support, to "fill up." After various preparatory experiments Schulze managed to start a bank, a not inconsiderable part of the share capital of which came to be held by co-operative banks, and on the Board of which there were co-operative bankers of recognised authority. Once more, the purely co-operative business proved entirely satisfactory. The bank was in this case freely

called upon to provide credit; and in every good case it provided such. However the same demon of speculation which injured the Raiffeisen Central Bank somehow got into directors' minds. Temptation to this is nothing uncommon. And it requires a good deal of resolution and principle to withstand it. There appeared to be a golden opportunity. Why not break through the stiff, cramping rule? In the feverish bubble days of 1873 the People's Bank of Milan nearly ventured itself upon this rock, on which it would infallibly have split. And other People's Banks, such as those of Genoa and of Brescia, have actually foundered on this reef. In Germany it was likewise what M. Luzzatti has called *bancomania* which worked the mischief. German banks had been led generally to develop the speculative side of banking. Speculative banking indeed became the ruling feature among them. They became what Germans themselves frankly call "speculative banks." They started companies, financed industrial undertakings, and embarked upon all sorts of risky enterprises which brought them in fat dividends. The shareholders of the Schulze-Delitzsch bank — *Sörgel, Parisius and Co.*— began to feel uncomfortable in their old-world low-per cent. safety. It seemed to cast a slur upon them. Why should they not do as others were doing and rapidly fill their pockets? The directors weakly gave way. They were very capable men for quiet, unsensational, co-operative banking. But speculation turned out to be out of their line. Loss followed upon loss. Fatal disaster appeared imminent — when, as a *deus ex machina*, the *Dresdner*

Bank providentially stepped in to offer amalgamation. Amalgamation was effected and saved the threatened bank. Now the Dresdner Bank, with the old "co-operative" bank within it, is practically the central bank for these exceedingly active and useful co-operative banks, and the arrangement works to the satisfaction of both parties. For active banks, doing a large business, probably no better arrangement could be devised.

The troubles and trials of these two types of central banks, which types have certainly been vindicated in their purity, were worth telling of, because they show how very dangerous it is for co-operative institutions to step outside their own proper sphere. Wherever co-operative banking is taken up afresh, temptation to go astray seems to present itself. It should be rigorously guarded against. For yielding to it has to be paid for.

The third type of central bank it is difficult to characterise as anything but an abuse. It starts from the false assumption that Co-operation cannot provide sufficient funds for its own maintenance and that it wants to be artificially propped up with funds contributed by patrons not directly interested in its benefits. That means putting the whole scheme upon an entirely false foundation. It abandons Co-operation with its sure promises of steady growth, stimulating independence and continuous creation of new values, for patronage with its inherent deadening weakness, its enduring dependence, caprice and dwindling results. Of the faultiness of the principle suggesting such change I will not

here speak. The proper place for considering that will present itself in a succeeding chapter. However it must be evident that, as a mere technical matter, under such circumstances the central bank assumes a completely changed character. From a balancing station, helping to keep the local banks self-supporting, with occasional drafts upon the general banking market figuring in the second rank, as an emergency source of supply, it becomes distinctly a money providing bank destroying self-reliance; and it is balancing which recedes into the background, as a purely secondary service. Obviously that denaturates the character of the bank and undermines the co-operative principle. For success Co-operation depends for the most part upon co-operative spirit; but you cannot look for co-operative spirit amid such surroundings.

The most striking example of such organisation for central banking is to be seen in the State-endowed Central Co-operative Bank of Prussia — and now practically of Germany — and institutions formed in imitation of it. But things are not very different in Hungary, where the Crown and great magnates have combined to endow a bank “to borrow from,” which their nominees administer. And in France it is only the form of organisation which has been altered — for very obvious reasons. In 1894, at the annual meeting of the *Société des Agriculteurs de France*, the late President Senart, on the Government’s behalf, solicited the assent of French agriculturists to a scheme for endowing a central bank — with a ridiculously inadequate sum of public money. He pleaded for such a bank as a “ne-

cessity." I immediately chopped in with a correction, substituting the word "convenience." I had the *Agriculteurs de France* with me. The scheme fell through. Next year Prussia led the way with the creation of a State-endowed Central Bank. It would of course not do for France to tread in Prussia's footsteps. So the scheme was altered, although the principle was retained — and the endowment was immensely increased. That scheme has been given effect to in the shape of the *Crédit Agricole*, which employs ample money extracted from the Bank of France as the price of the renewal of its charter, to distribute among farmers. The Government professes to be very proud of the results that it has achieved — just as was Lord Cromer of the supposed success of his (non-co-operative) "Agricultural Bank of Egypt," until that business broke down under an excessive burden of arrears, too numerous to admit of the invocation of legal process, and the introduction of "homestead" rights, which ruined the credit (here relied upon) of small farmers. As to the *Crédit Agricole* of France, a Select Committee of the Chamber has last year officially reported that there likewise repayments fall short — in addition to which reserves (and capital generally) are only slowly accumulated. This scheme had the good fortune of enlisting the admiration of the "American Commission." However the French Government itself is dissatisfied with it and has prepared a thorough recast of the law, while the very important Agricultural Syndicates representing independent agricultural opinion have risen in rebel-

lion against it and have begun to organise an independent system of their own.

One can not judge the cases of Russia, of India, and of the neglected parts of Italy — the South and Sardinia by the same rigorous standard as those of more developed countries. Their cases deserve only passing mention here, because the assistance given — and temporarily necessary — is not given through central banks in our present meaning of the term — except, unfortunately, in Bombay Presidency. That, with the exception mentioned, such assistance is taken only as a bona fide temporary help is apparent — in India from the fact that after ten years it has already become practically superfluous and has in fact almost ceased; in Russia from the fact that the many co-operative societies forming, giving proof of creditable vigour and longing for independence, are striving to throw it off as soon as can be. In Italy we may in due course look for similar results.

However, these cases are quite exceptional and do not really arise under the aspect which we are here contemplating. Quite briefly to summarise the defects of “financing” central banks like those instanced, be it said that they import a principle which is entirely foreign and indeed hostile to Co-operation. They make beneficiaries to look for benefits from without, which Co-operation would have them create for themselves. They remove the inducement to watching and checking — and also to economising. The central bank, not being the banks’ own, as a matter of necessity applies its

own particular test of — to use Schulze's rather uncouth German term — "*creditworthiness*," which test is not that which vigilant observation by responsible fellow members, acquainted with the merits of each case, would suggest, but purely mechanical. It lays down fixed common rules — such as no banker, dealing with that delicate commodity, credit, would care to apply — treating all cases alike — rules which are apt to become a mere matter of form, or else unduly inquisitive. Thus, in Prussia, the bank asks to see members' private assessment to income tax, and the like, which should in fairness be kept secret. Harsh and hindering at points, it becomes at other points loose and unreliable. Under such régime the object of a local bank desiring credit becomes, not to provide genuine security but to satisfy certain formulas laid down. But you cannot measure "*creditworthiness*" by a mechanical standard. One serious result — as we have lately seen — of such handling of credit is a dangerous laxity in checking and control. The Union of German co-operative banks, some of which came disastrously to grief recently with a resounding crash, is dependent for its supplies upon the State-endowed Bank. And the official inquiry instituted by the Court of Law has shown that it was laxity of control which mainly caused the defaults and first brought on and then concealed long continued, increasing insolvency.

Also these patronising Central banks are most inconvenient messfellows. It was the attempt openly made by the State-endowed bank of Prussia, miscalculating its opponents' supposed weakness, to make it-

self absolute master and to use the co-operative banks as a convenience to itself, which led the great Raiffeisen Union to break loose from it in indignant resentment. And if the State patronised "Trade Co-operative Credit Societies" in Prussia have not yet followed such example, it is not because they do not feel the gallsore — they have openly complained of the Bank's unfairness to them — but because they lack the power. And even the great Imperial Union, which is the bank's most faithful client on the co-operative side, has winced not a little under the yoke, as the late Herr Haas has himself confessed to me at one of the Union Congresses, when his colleagues in their anger threatened to rise against their master in rank rebellion — but found that they likewise were too weak to do so.

All such outside central institutions had best be left alone. Co-operation without self-help and absolute self-government becomes a mere name and cannot produce the results looked for.

There is one form of "central bank" still to mention, which is found very useful in the present early stage of development of Co-operation in India, but which is really only a specimen of the first type discussed — a bank of banks — on a reduced scale. Something similar may possibly be found useful elsewhere. Not only are the rayat members of the newly formed little banks in India very poor — which means, among other things, that they are unable to contribute much in the way of deposits — but they are also very isolated and very backward in knowledge of business. Means of communication are few and everything is un-

developed. Deposit money, however, there must be. Under such circumstances clusters of local banks in various districts have combined to form "central banks," which give their collective liability as security and thereby, as is found, readily attract deposits from outside. The arrangement is not without its elements of danger. A system of co-operative banking can only be successful which makes every individual bank absolute mistress of its own liability and makes it stand, so to speak, upon its own bottom. All intermingling and interlinking of responsibility involves danger. It is quite possible that in India such central banks may become masters, each in its own district keeping the local banks with their liability dependent upon itself and practically disposing of their liability without allowing them a sufficient voice in the matter. Under such circumstances their liability, upon which their creditors rely, must needs become a questionable quantity. Thus far however the arrangement appears to have answered well and to have, indeed, served to bridge over the threatening gulf of isolation. Not only do the general public willingly deposit in such central banks, but joint stock banks likewise readily open credit accounts to them.

There can be no doubt that, properly organised and properly handled, central banks are a convenience. They may be counted upon to increase the strength of each local bank joining them, they represent in themselves a very desirable help, and they are pretty sure, administering the combined resources of the host which they lead, in some respects with better knowledge, to

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discover new openings for the application of co-operative effort, as they have done in Germany. But they are not indispensable.

Union, on the other hand, should be considered necessary wherever banks have grown at all numerous. You cannot well retain the character — and that means the credit — and the uniform standard — which means an equality in reputation — among a number of banks without a Union. And propaganda can without it be only desultory and ineffective. It will be well to keep the several functions of the two types of central organisation distinct. In early stages the central bank may to some extent discharge the duties also properly pertaining to the Union. But it will be best to assign to each of them its own proper sphere.

CHAPTER VI

CONTROL AND AUDIT

CONTROL, as has been said, is the soul of co-operative banking. In co-operative banking you work with so little capital and such amateur personnel and machinery, that in some way or other,—to make up for such defects,—if you desire to keep your enterprise safe, you have to safeguard it by other means. And those “other means” spell control. If you study co-operative banking in its most perfect specimens, you will find that it is practically made up of control. It is essential to make sure that all the wheels of the simple machinery work aright, that every spring and every cog should do its own particular duty. So there is a Council to control the Committee of Management, and the General Meeting and the members generally to control the Council; and there is some higher authority with greater experience and greater banking skill to control the bank collectively. The aim pursued in all this is to close every crevice against possible abuse and to take every precaution against risk and loss.

It ought not to need explaining that by such “control”—which in truth, under the division of labour indicated—is in practice much less formidable than

it appears in the description — more is meant than mere audit or the verification of figures. These things are necessary, of course. And although, on the one hand, the final passing of audit and the verification of figures, to prevent any imposition upon the public, may without objection be left to some outside public authority, the work assigned to the Council of Supervision, such as every co-operative bank ought to have, may well at the same time embrace the function of audit. In rural credit banks the Council may without danger be left to carry out such audit itself, unskilled as its members may in general be taken to be. The figures are likely to be few and the transactions simple. However in a bank with an active business — more especially if such business be varied — the Council had much the best appoint a skilled accountant to carry it out in its place and under its authority. Co-operators have rightly learnt to value skilled accountancy. The British “Stores” will now have none other, simple as store bookkeeping is, and well trained as are in general those who deal with it. In co-operative banking more than thirty years ago Schulze-Delitzsch insisted upon it in his own bank, threatening to resign his seat on the Council if his request were not complied with.

Apart from this, Council of Supervision inspection is not essentially a matter for a skilled accountant, because in it actuarial points do not come into account to any large extent. Its object is to ascertain, in the first place, whether all the provisions of the law, and all the precepts issued by the society, have been faithfully observed; next, to check formal points of admin-

istration, see whether all formalities required have been complied with, whether sureties have in every case been communicated with and their signatures verified, whether the right employment has been given to the loan, whether the rules with regard to repayment have been observed and, in the last place, to examine whether the Committee which deals out the loans has rightly exercised the discretion left to it, not lent to the wrong persons, or for questionable purposes, or beyond the figure with which the borrower might be trusted, as also whether it has properly dealt with surplus funds by way of investment or deposit. These, so it will be admitted, are important points, and if the Council is to do full justice to them it will be understood that it ought to be able to speak with sufficient authority, for which reason both Schulze-Delitzsch and Raiffeisen recommended Councils composed of a larger number of members than the Committees which they are to control. It need not be added that, to be able to carry out its duties satisfactorily, the Council will want to have free access to all accounts, correspondence, cash boxes, vouchers and whatever else there may be belonging to the bank. It acts under this aspect as a Commission of Inquiry on behalf of the members generally. Nor yet need it be explained that there is nothing hostile or derogatory to the Committee in the appointment of such a Council. The Committee will want keeping under control. For it might take things too easy. We see in sundry rural banks of Germany that Committees, being given too free a hand, grant annual cash credits rather than inquire into the object

of each loan, as their system requires that they should do, and that they do this avowedly with the object of saving themselves trouble. But, on the other hand, without a Council to uphold the rules of the bank against great and small, without respect of persons, the Committee might often feel tempted, under an applicant's importunity or blandishments, to stretch a point in his favour — it may be from pure good nature — to the detriment of the bank. The present leader of the Schulze-Delitzsch Union has more than once, when things had gone wrong with a bank, and inquiry had revealed the cause, found himself driven to declaim against that "infatuated confidence" (*Vertrauensdusel*), which has prompted risky credits. It will be much easier for the Committee to say "No," when there is a Council at its back to keep it in order.

That is all plain sailing enough. And although new disciples of co-operative banking may boggle over it when it comes to the appointment of a Council, it may be taken that on the point of control all the expert world is agreed.

However, there is something further desirable, if not indeed positively wanted. It may be well to recall once more to mind that in co-operative banking the administrators that we have to deal with are for the most part mere amateur bankers, little skilled in the technical details of the business and without much experience. Their experience and knowledge may be good so far as they go — indeed better adapted for the particular business in hand than the wider-ranged skill of trained bankers. But it will only go a certain way.

And, be co-operative banking as simple as it pleases, at one time or other questions of commercial banking are sure to arise in it, which will want to be dealt with on commercial lines. In the larger banks of the Schulze-Delitzsch and Luzzatti types there will be found among the Committeemen (*vorstand*) as able bankers as are to be met with anywhere. But these are just the men who, by reason of their office, want to be controlled. And in the Councils there will be for the most part only amateurs.

Therefore, ever since, as long ago as in 1878, Schulze — who throughout his life was the most resourceful originator of new ideas in his special branch of work — suggested a superior and more expert kind of control to be carried out in every bank once in three years — such as his union actually adopted as a compulsory rule in 1881, to enforce it further in 1887 (while at the same time reducing the period from three years to two). The most active minds among statesmen and bankers have since then readily espoused that new proposition, which the German Parliament embodied in its co-operative law as early as in 1889, when passing a revised Co-operative Act, and the Austrian in 1903. There can be no doubt that Schulze's idea was an excellent one and that its application has wrought unspeakable good, making co-operative banking safer — and to that extent cheaper — and raising co-operative banks which accept it to a higher and more uniform level.

Among rural banks, with their humble pretensions, the same idea came to be generated and matured in a

different way. Raiffeisen found — just as Indian Registrars find in the present day and Irish organisers in Ireland — that the little committees and councils were in many cases not capable of keeping accounts and exercising their other functions in the most correct way. Such state of things really continues, in a moderated shape, to the present day. And at the present time there is, in the rural co-operative banking movement in Germany, no more useful institution than that which has, as I believe, my friend Privy Councillor Havenstein of Bonn for its originator, namely, a special department of his particular union (the Imperial Union), which undertakes to draw up balance sheets annually for rural credit banks — not as an enduring service, but simply as a temporary help or schooling, to teach Committees and Councils to do such work for themselves. There is no supervision in this, merely the putting of balance sheets into proper shape. Raiffeisen had, of course, on the same ground, the same difficulty to contend with. Balance sheets were drawn all awry. So he directed the balance sheets to be sent up to headquarters every year, accompanied by answers to stereotyped questions put by the central office, to be there revised and set right. And out of such material, often supplemented by additional questionings, the headquarters evolved correct bookkeeping. This practice naturally led to further and further inquiry into facts, and of itself developed into inspection carried out by a regular staff of travelling inspectors, selected for their fitness, without prejudice to the sending up, as of old, the balance sheets, which now pass

through two examinations, first at the centre of the section, and after that at the headquarters of all, so that certainly no labour is spared in the matter. What we are, however, here specifically concerned with is, not the preparation of balance sheets, valuable help as it is, but the inspection of the bank's doings by the travelling inspector, who reports up to headquarters.

M. Luzzatti took up the idea of general inspection, in Italy, on Schulze's lines, at once, when he was made aware of it, in 1888, and again in 1895. The large Italian People's Banks, however, apprehending interference, resisted the proposal, just as they — really as a matter of trade-greed — resisted the same leader's proposal to create a central bank. The Italian Government is, however, now busy with a scheme for introducing inspection, shaped generally on the model of that in force in Germany, and making it compulsory. And there can be no doubt that other Governments will follow its example.

In truth, the idea of obligatory inspection by a higher authority is now everywhere approved. The difficulty is, in the absence of sufficient knowledge of the excellent results obtained in Germany, to get people to agree respecting the shape which such inspection is to take. Government men, as a matter of course, everywhere claim the office as a matter of right for men of their cloth, whom they suppose to be endowed with a monopoly of fitness. Only in England the Board of Agriculture, conscious possibly of its own insufficiency, pleads for inspection by bankers. The requisite audit is in the United Kingdom of course

prescribed by the two Acts which severally govern the matter. But, in its endeavour to promote the formation of "agricultural banks," the said Board has obtained a promise from a number of joint stock banks — which are also willing to open credits and to receive deposits — to send skilled managers of theirs, gratuitously, as a public service, to inspect rural banks and advise their managers. Now these banks might as well send artillery officers to instruct riflemen in rifle practice, or a *cinque cento* architect to advise a country carpenter how to set up a pigstye. The two classes of banking are essentially different and call for wholly different practice and precautions. So essentially different are joint stock business and co-operative business, that in the United Kingdom, where Co-operation took its first start on a large scale, Parliament has expressly sanctioned the entrusting even of ordinary audit in co-operative societies to a distinct class of accountants, skilled and passed as accountants, but having made a specialty of co-operative business. If that is so in mere accountancy, how much more is it bound to be the case in the matter of inspection for the general conduct of this particular business. The bankers volunteering advice might conceivably give such to a central bank, which meets with them on common ground and has, as part of its duties, the same class of business to deal with. In a local bank their "high finance" expert knowledge must be thrown away. Co-operation will have to train its own advisers and inspectors, as it does, systematically and with good results, in Germany. In that country there are special courses of training in-

stituted for co-operative inspectors, with examinations and certificates of fitness at the end.

Practically the same proposition is favoured in a modified shape in some other quarters. What is there asked for is that central banks should be charged with the office of inspection — and, what grows out of this, of expertly advising — local banks. That is much advocated in India, where there are some “central banks,” but as yet no “unions,” so that there is no one to entrust with inspection except the official Registrars, who are finding the burden growing too heavy for their limited powers — unless it be taken charge of by central banks. And such is the course actually practised in Roumania where, under a faulty, Government-ridden system, the central bank is the real moving organ in what “co-operative” banking there is — not a little of it, but that rather of the distributing than the up-building order. Now under such arrangement we do not even make sure that we shall have really good expert banking knowledge to assist us in the work. For the central bank inspectors may be as mere amateur bankers as are the local bank managers. There is likely, on the other hand, to be among them some knowledge of co-operation, which joint stock bankers cannot be expected to possess. But the interest enlisted will naturally be that of the creditor, or potential creditor, not that of the disinterested well-wisher to the bank or the interested shareholder or depositor. So far as the central bank makes advances, it has as a matter of course a creditor’s right to examine accounts and whatever else might affect its position, in order to

ascertain whether its eventual claim is absolutely safeguarded. That may be settled between it and its borrower as a simple matter of contract. Its officers may, beyond that, give paternal advice — and in the absence of other inspection it is quite right that their willingness to do this should be utilised. But the impelling motive which ensures really good inspection, the full identity of interest, will still be wanting. In the recent inquiry into German bank crashes it was found that it was an officer of the central bank who, out of solicitude for his own institution, had egged on local banks to their ruin assuring them that the (already insolvent) central bank was good for all its liabilities. And one does not see what power either the central bank inspector or the joint stock bank inspector could exercise to make his monitions obeyed. He may advise, but he cannot enforce. His only possible threat will be that of withholding further advances.

The worst method of all is that of entrusting inspection to the Government, by means of inspectors to be appointed by it. There is a great belief in this, notwithstanding, in some quarters. The prospect of cheapness, which Governments know how to make play with, has something to do with this. But, apart from that, what inspection — so it is asked — could possibly be more thorough and searching, and also more skilled and effective than that carried out under the authority of the Government of the country with its inexhaustible resources of compulsion? Such opinion is much favoured by political authorities on the European Continent, but fortunately only little practised because the

Governments, coming later into the field than voluntary organisations, have not found convenient means of dispossessing the latter, who were already in possession. All that they have practically been able to achieve — except in such countries as Russia, Roumania and the like — has been, quite consistently with their imposition of compulsory inspection, to offer the services of Government inspectors as an *alternative* to union inspection, a last resource in the event of the failure of others. However, evidently they desire their own method to be given the preference, because they have — once more at the general taxpayer's expense — fixed only nominal charges for its execution. At the outset the charge for inspection, such as a union can offer only on self-supporting lines, weighs rather heavily on small banks' resources. In Ireland, to state one instance, it is felt as a hindrance — and that is one reason why Irish rural co-operators, operating under peculiar circumstances — in backward country sections, where population is sparse and poor — wish to be allowed to couple trading, which is known to be remunerative, with petty banking, so as to have a margin of income available. On the face of it, however, it must be apparent that inspection by Government officers is of no value whatever — in M. Luzzatti's words, spoken at a great Italian Congress, "worse than no inspection at all." The Government has every facility for ascertaining established facts and compelling compliance with formal, positive precepts. It can go no further. It can send its inspectors to inspect factories, mines, schools, prisons, and punish defaulters by fines

or, it may be, by withdrawal of licenses. It can, in co-operative banks, compel and carry out an effective audit and verification of accounts. And to all this it is entirely welcome. *Admettons le contrôle, repoussons l'intrusion*, so says in this connection M. Eugène Rostand, for a long time the leader of the free co-operative credit movement in France. But it cannot penetrate into the particulars of a business — more particularly of a business so absolutely dependent upon individual title and changing circumstances as credit banking. The Government inspector might truthfully report everything to be according to rule — so far as his instructions go — in a credit society which was nevertheless on the brink of insolvency.

These things are not to be settled by rule of thumb. And one point, which advocates of Government inspection fail to bear in mind, is that Government inspection purporting to amount to a guarantee — that is the ground upon which it is recommended — implies as a necessary corollary Government liability for default. This is no chimera. There have actually been cases in which the question of liability was raised at law. The Union, against which the claim was raised, came off scot free, because it had given no guarantee; it had only to the best of its power supplied a skilled inspector. A Government would not have escaped so easily.

But what is really worse is that a Government inspector would have neither the requisite qualification and interest to make his inspection useful, nor would he or his superiors have the means for enforcing remedial action where such might be judged necessary.

What is he to do in case of non-compliance with his behests? He may fine the bank — which will impoverish and may ruin it. Or he may have its registration cancelled — which will leave the district without a bank. He is not likely to possess the necessary qualifications because, co-operative banking being a practical matter, expertness in it can be acquired only by practical training, handling of bank money and dealing with cases. And without the expertness of a practical man, what is inspection worth? German unions explicitly bind themselves only to employ thoroughly skilled and fully competent inspectors. And a Government inspector cannot possess the requisite interest, because the fate of any of the banks does not matter to him a red cent. He goes there to do his duty — by rote. He goes through his prescribed programme of inquiry and he goes away again. If the bank comes to grief — what does that matter to him? He will have done his part; he will still remain Government inspector and be not one penny the worse. His inspection is likely to become either a mere form perfunctorily gone through, which can do the bank no good, rather harm; or else an exercise of arbitrary power, which will irritate the members, and dispose them all the less to comply with his recommendations. They cannot indeed under any circumstances repose real confidence in him. A trusted parent can do more with a child than the best armed and most resourceful policeman in the world.

The proper authority to carry out inspection in a co-operative bank is without question a union of co-

operative banks of the same order. Such union can make sure that it will have competent officers to do the work under responsibility to itself, who appoints them, that is, to experienced experts. Such inspector need not stand upon etiquette with the local banks. He can put inconvenient questions and examine minutely without giving reasonable umbrage. The Union's interest is one only, and that is, to keep its own banks fully up to the mark, to safeguard members and creditors against loss. Itself would be prejudiced if any of them were to fall below or be ruined by mismanagement. And what in this matter is the Union's interest is also the bank's own interest. Therefore the Union need not in any way be squeamish about questioning its member-banks. The interrogatories actually put to such in Germany would astonish American readers. They are so minute. They go into every detail. The Germans are adept schedule makers. And here, in their schedule of questions, is the result of more than forty-five years of careful inquiry! Every possible danger point is taken into consideration. The Union is also not sparing in its disciplinary methods. Its officers make their examination in the bank's own interest, with professional skill and experience as well as with authority at their back. Their inquiry is searching. It is carried out according to rule in the presence of the governing bodies of the bank, or of their representatives. Its result is embodied in a report and read out to those bodies or to members generally. That report also goes to the District Union and to the general Union, where as a rule it is kept private. However, if

there should be faults really imperilling the bank, the report may be discussed in the common interest at the District or the General Congress. In extreme cases the bank may be turned out of the Union. If to have its shortcomings publicly discussed is not pleasant, to be expelled may seriously damage its position. In spite of all this, not only is membership in a Union felt as a gain, but the Union inspector is welcomed in the banks. The members of such know that he is doing them a real service, that there is an object in all the interrogatories put to them, all the inquiries made into their business. He comes as a friend and as a skilled teacher. He is under instructions to assist them — at the inspection and otherwise, say, by addresses — with his advice. If he should find fault, he explains his Why and Wherefore for doing so and argues the case understandingly with the members.

There can be no question that inspection by the Union is a real benefit to a bank; and in Europe power to institute it is reckoned a privilege under the law. It is — quite rightly — conceded only to Unions which have given proof of their worthiness of it and made good their position. To state one instance, the Union of Polish co-operative banks in the eastern provinces of Prussia, under a benign Minister not obsessed for the moment with Antipolonism, obtained that right with good cause. They value it and employ it well. Therefore it could not decently be withdrawn, as many antipolonist politicians would wish. There are in truth no better conducted co-operative banks on the European Continent.

However, the law, in spite of the proved utility of Union inspection, very properly makes provision also for the case of banks which do not provide for it. Such banks — there are some, and quite good ones among them, which do not belong to any union, nor even to an “inspection union” (*Revisionsverband*) such as are here and there formed for inspection only — come under the same rule of compulsion; but no union inspector being available in their case, they have to submit to inspection by a Government officer appointed by the law court of their district. They do not like it; and it is to be feared that they are not much the better for it.

A law similar to the German, making inspection compulsory but permitting inspection by recognized unions, and placing inspection by Government officers only in reserve (in respect of societies which have no union), is, so I have reason to believe, in preparation for Italy. And in my opinion there can be no better solution of the question.

This subject cannot well be finally dismissed without just a few words upon the nature of the inspection here recommended.

That inspection, so it may be explained, was never intended to replace checking by the local Council of Supervision, which appears so unnecessary to not a few novices, but only to supplement and, where necessary, to enforce it by order of the higher authority. To undertake such local inquiry the inspectors of the Union obviously would not be the proper persons. For that is a question of knowledge of the local people, of their

character and their circumstances. Has "Brown" been trusted to excess? Is "Jones's" the right case? And so on. The Union inspector, coming from a distance, could never answer these questions. Council control must always and under all circumstances remain the pillar of safeguards in co-operative banking. However, the Union inspector is acquainted with things of great importance, upon which members of the Council are not, or else at any rate are often enough not sufficiently, informed. He has passed through appropriate schooling, he has been examined and found eligible; doing nothing but inspecting all the year round he has been brought in touch with many scores — through his consultations with his colleagues, at their regular meetings, with thousands — of co-operative bankers and by his inspections and inquiries he has become acquainted with very varied experiences; he is informed upon every point which is likely to arise in co-operative banking; at the same time he is kept in touch with larger banking; he has all the points of pertinent law and of co-operative banking at his fingers' ends. Although he does not know about "Jones" and "Brown," he is full of banking knowledge. He knows what a bank must do to keep its resources sufficiently liquid — a point to which very properly steadily growing importance is attached; he knows how much borrowed money a bank may, under varying conditions, take up in proportion to the capital of its own; he knows all the legal precepts to be observed; he has a keen eye for any irregularities from a banking point of view. And his interest is, as al-

ready observed, identical with that of the bank inspected. His union, which pays him, and to which he is answerable, is made up of local banks. Its foremost interest is that those banks should be thoroughly safe and merit as well as command a high reputation. Therefore he will do all in his power to keep them up to the mark. And, generally speaking, their members and Committees are thankful for his advice and show themselves anxious to benefit by it.

Here is the coping stone to that structure of control and checking which constitutes the framework of the co-operative credit fabric. Step by step inspection rises, from point to point — from purely local and personal considerations to the highest questions of technical banking practice which occur in it. And in the varied applications of inspection, in such proving of all points, lies the safety of the bank. That is the effective substitute which Co-operation can provide for the lacking funds and banking skill of those who, on the lowest plane, administer the banking organisations. It has given ample proof of its value; and it cannot be contended that it is not applicable everywhere.

CHAPTER VII

VARIANTS AND DANGERPOINTS

It was scarcely to be expected that a movement so largely dependent upon local conditions, habits and temperaments as is that for the dispensing of co-operative credit should long continue in its wider application on the same narrow lines that were prescribed by its first originators. Neither was it to be desired. In matters of economics principle is immutable. Credit, wherever practised, *must* be based upon security. However, principle will, according to varying environments, accommodate itself to a variety of shapes. And, if you would cover much ground, you will needs have to apply it in such way as to make it suit a variety of different cases. Circumstances differ in various countries, not rarely very considerably even in the very same country. Habits differ. The Germans and Austrians take a pride in their practice of unlimited liability, which the Italians hold in abhorrence and judged to be the very first thing that had to be got rid of. Human character and human preferences differ. Laws differ.

Next, in this imperfect world of ours, it is impossible to devise any one scheme which is not — it may be by reason of its very excellence — liable to abuse. Carry its leading feature, which is its glory, to excess,

and you have a caricature. Businesslike organisation may result in profit-seeking commercialism and the selfish domination of capital. Philanthropic idealism, on the other hand, may destroy businesslike equilibrium, or else concentrate power in one or a very few hands. The former result would make the scheme unworkable, the latter would wholly spoil its character. There is nothing surprising in the fact that the danger of such denaturations should have forced itself upon the attention of men endowed with critical minds and that such men should have made it their aim to counteract the dangerous tendencies and guard against deterioration by additional safeguards. Nothing could be better than if they should succeed. However, while the world remains the world, the chances are that the studied avoidance of one rock will only land the vessel upon another, possibly more dangerous.

In the last place, there are the powers that be to be reckoned with, no matter whether they handle the sceptre or the censer, whether they preside over broad acres or deck their head with the Phrygian cap. The better a thing succeeds, the more persons will it attract within its influence, whose support may be coveted for other purposes than that directly contemplated and whom it is accordingly policy to bribe with benefits.

The last-named factor making for degeneration one would wish to see altogether eliminated from the balancing play of forces. Politics and denominational strife have no proper place in Co-operation and can only serve to denaturate it. They have, nevertheless, proved in fact very powerful agents.

As between the two systems reviewed, Change has proved by far the most active on the Raiffeisen side, as is perfectly natural, as we shall see. The system having Schulze-Delitzsch and M. Luzzatti for its protagonists has suffered very much less. And for good reasons. There is a oneness about it which makes it self-contained and self-explanatory. It is all economics. It has no other aims which affect it. And, therefore, barring deliberate corruption, it is bound to remain essentially unchanged. Not even Russian officialism, operating with its big purse and its large army of submissive public officers, has succeeded in damaging it more than by putting it into Government garb and forcing some public money upon it. Look where you will — in the German and Austrian *Kreditvereine*, in the Italian *banche popolari*, in the Swiss *Schweizerische Volksbank*, in the struggling French *banques populaires*, even in Lutfi Bey's few banks newly established on the banks of the Nile, you see still everywhere essentially the same system. The non-German throwing off unlimited liability has not altered the character of the institution. The worst damage done to it from without is that for which it has to thank the Prussian Government and its imitative sister Governments in Germany, namely, the organisation of it in detached compartments for distinct trades, each by itself, which runs directly counter to common sense and was bound to lead to unsatisfactory results. Dr. Hugenberg, who for a long time was at the head of the Government department dealing with these particular matters, has, in a book recently published, re-

vealed the motive for this.¹ It was political. All these sixty-five years has the Government at Berlin steadily obstructed the progress of Schulze-Delitzsch's Co-operation, simply because it teaches self-reliance and independence, rejecting the Government's bounty. This was considered heresy. Also Schulze and his friends were for the most part Liberals and partisans of German unity, at a time when that was deemed heresy in Berlin. Accordingly they were tabooed, and when it came to passing the first German Co-operative Act, Schulze, the one genuine co-operator in Parliament, was deliberately excluded from the Committee entrusted with its elaboration. Nevertheless he succeeded brilliantly in his work. Then, as Dr. Hugenberg has put it, "to get the tradesmen"—the class for which Schulze had more particularly devised his scheme, "away from Liberalism," the Government—always eager for "votes"—took to favouring "Trade Credit Societies"—credit societies, that is, in which membership is in each case confined to one trade only. That necessarily did away with all the wholesome "balancing" between abundance and want. But obviously societies so formed must needs remain dependent upon the institution which nourishes them with cash, that is, in this case, the Government. And that was just what was desired. The Hungarian Government, when deciding to take the trading classes under its wing, acted far more circumspectly; for, although favouring single-trade societies for all purposes *except*

¹ "Bank-und Kreditwirtschaft des deutschen Mittelstandes, von Dr. A. Hugenberg, Geheimer Finanzrat. Munich, Lehman. 1906."

that of credit, which is quite right — it with equal propriety particularly recommended the blending of trades in one society for purposes of credit. The result has, as observed, in Germany proved anything but satisfactory. The societies have declared themselves not at all content with the assistance rendered to them by the State, nor with the clumsy methods forced upon them for using it — which methods were, in part, borrowed from the official credit apparatus contrived for farmers. One or two trades — most notably butchers and bakers — have reaped some benefit; but that is rather because by such means the cheque and clearing have become available for them, than because of any credit allowed. Otherwise things have not gone well, and Herr Mager, a responsible officer of the very bank which dispenses State credits, has publicly expressed his preference for independent banking. Dr. Hugenberg himself has, likewise publicly, owned to the opinion that the “Trade Credit Societies” would do better were they now to seek admission to the Schulze-Delitzsch Union.

Thus, in general, on its own side Schulze-Delitzsch’s system remains outwardly intact. All the same it has not altogether escaped abuse though retaining its original form. Experience has made it clear that the commercial spirit inspiring it may be carried too far. The most serious dangerpoints about it are the non-limitation of dividend on shares and a desire to do “business.” As business has increased — beyond anything that could have been foreseen — dividends have grown fat and “dividend hunting” has become a not uncommon practice — in Italy as in Germany. What

wonder that in some cases — notable cases among them — professing “co-operators” have turned themselves into profit-seeking capitalists and their co-operative societies into — essentially or else quite outspokenly — joint stock concerns! Also, in the chase for “business,” unreasonably large credits have been opened to members — generally to members of the governing bodies. Or else the cheap credit of the co-operative bank has been taken unfair advantage of by moneylenders, for obtaining from them cheap money wherewith to carry on on a larger scale their usurious trade. That is not likely to occur in the present day, either in Germany or in Italy. For, if dividend has not been limited by rule, it has become so generally in practice; also excessive credits are now eyed with suspicion, and there will be few, if any, money lenders found in the ranks of banking co-operators. But the moneylending business is believed to be still going on merrily in Galicia and possibly in Hungary — in both countries only in the professing Schulze-Delitzsch banks.

Such dangers may very well be guarded against by careful inspection and by limitation of dividend on shares — to which may be added the distinctly co-operative practice of allowing dividend on business — as in Stores — of which the meritorious veteran of co-operative banking in Belgium, M. Alfred Micha, has made himself the advocate, and which has already come to be practised in several co-operative banks in Italy.

All such progress notwithstanding, one cannot pretend that danger of abuse for selfish purposes has passed wholly away, or that it is peculiar only to conti-

mental countries. The devil of covetousness is as active in the Anglo-Saxon soul as in any foreign one. In England I have had more than one appeal addressed to me to organise banks for people who were interested in the sale of goods. The Credit obtainable at one counter was to tempt borrowers to buy goods with borrowed money at the other. Now this would have been the grossest perversion of Co-operation. But who knows whether similar proposals may not be put forward in the land of "the almighty dollar"?

The Raiffeisen system has had a good deal more to suffer from innovations and supposed "improvements." The reasons for this are not far to seek. To begin with, the whole structure of the Raiffeisen society is of a nature, one might say to tempt to proposals for supposed emendation. Simple as simple can be under one aspect, under another the system is distinctly complex. Its aim and object is not purely economic, like Schulze's. Economics provide for it an instrument which is to be put to right good use. But its principal aim is moral and social upraising. Accordingly more principles and influences come into play than in Schulze's simple thrift and credit institution, such as give to people with "ideas" more handles to take hold of when seeking to adapt it to their own taste and interest. The philanthropist may wish to alter the system a little here, the pure economist a little there. And the self-seeker can, if he chooses, make great play with Raiffeisen's moral aims, which may be twisted into a pretext for all manner of cranky aberrations. Simple structure as regards liability, and excellent re-

sults as regards provision of money and raising of moral tone, have made it a pronounced favourite alike with high and low, with governors and governed. And the more popular a movement is, the more is its label sure to be made use of for the covering of contraband goods which are not, but may be made to appear, its own. People and authorities who require votes or influence — Church, political parties, territorial magnates — are not likely to pass by so tempting a weapon for their own several peculiar warfare. There is so much for which this system may be taken advantage of! Designed for the poor, as an unobtrusive, quiet instrument of improvement, it lends itself capitally to the country magnate's ambition for prestige and power, and also to his more egotistical craving for material gain by being turned into a weapon for "agrarian" warfare. To political parties, more particularly on the Conservative side, it offers an easy hold upon a docile and leadable population with votes. And to Church politics it presents itself as a chosen ally, since it in any case pursues similar aims and holds altar and cassock in honour.

As it happens, it is easy to bend into an altered shape to serve one-sided purposes. The procuring of credit without providing share capital, or only very little, is of course a powerful magnet. On the other hand, the conditions which such benefit necessarily imposes, the searching inquiry, the strict holding of the borrower to account, and so on, do not go down as readily. Here, then, there is a golden opportunity for the intending operator to seize upon, offering to boil the

peas on which the pardon-seeking pilgrim is to walk; in other words, to lighten the conditions while still promising the same benefit. However, thus far there has not been much success to record in these attempts to square the troublesome circle. For the weight taken off the burden has only added new dangers instead of removing old ones.

There are societies, of course, and also entire unions, which have accepted Raiffeisen's teaching in its purity — or its purity barring small points of detail. There are such in Germany, some unattached to unions, others forming smaller national unions of their own in their particular state, to preserve their distinctive Bavarian or Wurttemberg nationality. And in Austria — more notably in Bohemia — I have come across societies which remain quite true to their original apostle, although attached to Unions which favour adaptations. The societies in Transylvania and in Serbia, and those formed severally among the Serbians and Croats of Hungary, are also pure, so far as one can see. And so are the *caisses rurales et ouvrières* formed by M. Louis Durand in France — generally, however, with a strong leaning to the Church of Rome. However, in Protestant districts like the Cévennes there are also Protestant societies. But all indifferently place moral and religious aims before economic. The "Agricultural Banks" of Ireland may also rank as true copies of the Neuwied pattern. Dr. Wollemborg's "neutral" *casse rurali* in Italy are very facsimiles of German Raiffeisen societies — with this difference only that they accept the promissory note, which in German so-

cieties is held in abhorrence and therefore excluded, as the common record of a loan. Such note is well understood in Italy. Others besides M. Durand in France have tried to acclimatise the genuine Raiffeisen system, proposing to arrive at it on a rather roundabout way, which has unfortunately not yet reached its intended goal.

Apart from these instances, the Raiffeisen system is represented by adaptations, which only partially reflect the teaching of the original.

Barring cranks and people bent upon trying to combine irreconcilables, it is the three forces already indicated which have fastened upon the Raiffeisen system as a prey to be exploited, to whom we owe those various adaptations which have given Raiffeisenism a new face. They have acted energetically, ingeniously, sometimes each by itself, sometimes two or three in alliance. Thus, although in France and Italy, State and Church are in pronounced antagonism, elsewhere the two frequently enough readily join forces. On the other hand great landlords and the State are mostly declared friends, and gladly hunt in couples. Such alliance often shows itself as harmless — as for instance in Bulgaria, where, to suit the primitive habits of the peasantry, co-operative credit is put into the shape of a friendly society with continuing periodical payments from members in the place of shares. However in not a small proportion of the adaptations effected the influence of the larger landlords, working for their own advantage, and seeking for patronising domination over the smaller peasantry, is pretty clearly to be detected.

To run the gamut of alterations effected, the curious attempt to devise a form of Raiffeisenism with limited liability only may be regarded as devoid of political object, save that it is held to facilitate territorial magnates' patronising membership, which tells in the direction of politics, and which should, even on that ground, be anathema. Magnates would wish to stand at the head of any agricultural or rural movement started, so as to be able to keep it in leash; but on the other hand they want things made easy for themselves, and not to venture overmuch. That desire has been given effect to in two provinces of Prussia, with the aid of income tax rolls obligingly placed at the disposal of the givers of credit by authorities, for ascertaining the financial "value" of applicants, and in Hungary with the aid of a central bank endowed by the Crown and magnates. No regular follower of Raiffeisen would for a moment recognise societies so formed as true Raiffeisen societies — Raiffeisen's successor in the leadership of the Union, Herr Cremer, wrote to me emphatically more than twenty years ago in answer to my complaint about difficulty in obtaining authority for introducing unlimited liability in England: "Without unlimited liability you can form no Raiffeisen society."

The most noteworthy adaptation to be mentioned is that which Dr. von Langsdorff, Herr Märklin and Dr. Haas devised about 1880 in Germany and which has in its practical application become identified more particularly with the last named gentleman, recently dead, who, with the eye of a first-rate organiser, quickly detected at what points the system might be made more

palatable to the people whom he desired to influence. Altruism is a very good thing in theory; but egotism is more attractive. Once more, religion and moral raising are first-rate objects in the abstract; but ringing cash in the pocket is far more magnetic. It is not surprising also that Raiffeisen's rather self-willed bearing and austere adherence to principle should have given umbrage to earnest fellow workers with "ideas," many of which "ideas" are good in themselves. That caused jarring in the machinery. Moreover the principle of centralisation, which Raiffeisen insisted upon as indispensable is decidedly open to argument. Decentralisation, turning the absolute monarchy into a cluster of self-governing republics, gives far more chance to individual talent and the arousing of a healthy rivalry and emulation in the putting forward of new ideas. On such lines the secedents from Raiffeisen organised their own new union, throwing "religion" overboard as a point in the programme unsuited for their purpose and turning the Union into an organisation in which the large landowners lead and devise the policy, which is distinctively of an "agrarian" character — that is, pursuing material advantages solely for the agricultural interest, such as German Governments, regarding landlords and the docile peasantry as their peculiar body-guard, are not unwilling to agree to, even though the favours shown should have to be dispensed at the cost of other interests. Add to that very pronounced aggressive patriotism which consigns "John Bull and the Frenchman" — in desire only, but in desire with a veritable vengeance — to the realm of darkness, and adu-

lates "William of Hohenzollern," and you have a programme which, under Government patronage, marked by a shower of "decorations," conferment of titles, princely presidencies and all kinds of distinctions, is bound to "go." To get more wind into its sails, the new school broke away ostentatiously from Raiffeisen's preference for the absence of shares and secured Schulze's, at that time powerful, countenance and alliance by declaring in favour of "substantial" shares — which in practice however, notwithstanding this paper declaration, have on an average not been raised very much above the figure sanctioned by Raiffeisen, although in some provinces, where things go well altogether, due effect has undoubtedly been given to the new dogma. The reason why this has not been done more generally is, that it has been found difficult to compete with substantial shares against Raiffeisen banks with merely nominal shares and doing equally well. The curtailment of sacrifice on entering is a very telling bait.

On these lines, as a purely economic and distinctly agrarian movement, the "Imperial Union," as it is now rather ambitiously styled, has, with the help of first-rate men, covered Germany with societies and accomplished a great deal. It basks of course in Government favour, which in itself helps it forward. However the acceptance of State assistance was, like Eve's bite into the apple, an afterthought prompted by temptation. In 1881, at the annual congress of the Schulze-Delitzsch societies, whose support he earnestly sought, Dr. Haas still proclaimed emphatically: "We take our

stand upon the principle of self-help and will have nothing to do with State-help." That piecrust promise has long since been forgotten, as it was bound to be in view of the programme traced for the Union, which was not to be carried through without much State patronage.

In the matter of the supply of goods, the sale of produce, dairying, employment of electric power, and of machinery and implements and the like, Dr. Haas' decentralisation — that is, the distribution of power and authority over a number of independent and self-governing, but federated, centres — and the policy followed of getting the largest possible number together without strict regard for principle, has proved most successful. It is true that even in this branch of its business the Union has at times ambitiously overshot the mark, as for instance when it embarked upon a hopeless speculation in the purchase of nitrate deposits in Chile, for working which its capital was ridiculously inadequate. But in general the collaboration of active minds and the common counsels of independent local leaders have proved admirably stimulating. It is indisputable on the other hand that, as Raiffeisen has protested, "the true spirit is wanting" in this Union — the spirit by which he himself was led and which he laboured to infuse into others, the spirit of a desire above all things to benefit one's neighbours. But that is an essential and necessary feature of the new departure. The movement has become collectivistically egotistical. For a very brief few years "religion" was once more replaced as a catchword upon the Union banner, to pro-

pitiate the true Raiffeisenists, with whom a shortlived working arrangement for business — it never was more — was concluded. As a matter of fact it dropped out again when, necessarily, in view of the striking difference of principle, that arrangement came to an end. But in the province of banking the recent disastrous crashes in themselves indicate that the older system, like the wine in the Gospel, is the “better.” I had foreseen something of the sort since 1895, when I first visited Haas banks and found a decidedly unco-operative society side by side with a good one, within an easy walk from Herr Haas’ own headquarters then at Offenbach. You cannot make “big battalions” your aim consistently with the preservation of sound principle.

Things as a matter of course grew lax — or, let me say, lax in parts. For wherever rigid supervision is exercised there are as excellent banks in the Imperial Union as are to be met with anywhere — say, in Rhineland and in Hanover. But it is laxity which brought about those insolvencies, spreading distress over a whole province. It is laxity which has prompted that dangerous practice — dangerous in such connection — now become quite common in these banks, of granting credit in current account, for the sake of — so it is frankly avowed — saving trouble. The Union has however on its new lines not been able to do without outside aid, which outside aid has aggravated the evil (so common in Germany) of relying to excess upon credit rather than upon funds of one’s own. When the State-endowed Central Co-operative Bank was created in

Prussia in 1895, the Raiffeisen Union could afford to hold aloof. It felt strong enough in itself. The Imperial Union could not. It had no sufficient strength in itself. When in 1911 the Raiffeisen Union, meanwhile over-persuaded into entering into business with the Government bank, came to a rupture with the same Government institution, it could afford summarily to break off relations. Once more the Imperial Union could not. It had been pining for independence. It is so pining now. During the last years of Dr. Haas' life the burden of his admonitions to his societies was: "Try to make yourselves independent!" As long ago as in 1898 he confided to me that his aim was to make his Union so. He believed that it could be done then, when his followers were indignant at the—very reasonable—terms which the State bank announced that it must thenceforth in justice to itself insist upon. "We hold \$7,500,000 in deposits," so Dr. Haas boasted to me. Alas, that was not nearly enough. And the ensuing crisis, following upon the withdrawal of English money from German banks, in connection with the Transvaal war, showed that it was not by any means all "good, lying money." Those deposits soon melted away to a small remnant. In 1898 the Government institution could snap its fingers at the Imperial Union. In 1905 the Union began a most well advised agitation for the more systematic collection of deposits. That was a step in the right direction. But the results have not yet proved equal to the need. The Union still lies bound at the feet of the State institution.

Here we have a pretty typical instance of Co-opera-

tion become big-men-governed and political, in the interests of a section.

A similar example is to be met with in Hungary, where Co-operation applied to Agriculture is often held up as a model of organisation, on the ground of its rather grandiose conception and the amount of funds made available for it. Nobody could do fuller justice to the truly noble aims and intentions which prompted its founder, the late Count Alexander Károlyi, and to his beneficent work than myself, who have had the privilege of knowing that philanthropist and having his views explained to me. And no doubt allowance has to be made for backward conditions among the peasantry, and a primitive state of things generally prevailing in that land of great opportunities and great promise, which is peopled partially by Magyars. The *vis inertiae* there prevailing had to be overcome somehow. But impatience to see results has unavoidably forced the movement off its co-operative lines and shunted it on to those of patronage and magnate benefactions, with, as a matter of course, ample State help and State interference thrown in, to extinguish the proper principle. The movement necessarily continues to be favoured by the magnates and the Crown, without whose help it would collapse. It has no inherent stamina in itself. And the intended beneficiaries' prayer is this: God bless the squire and his relations, and keep us in our proper stations! It reminds one of what has happened elsewhere — say, in France, where at the outset great landlords befattering the movement of *syndicats agricoles*, and supplying the

money and the lead, as *membres fondateurs*, would frequently make their tenants "free" of the syndicate membership as part of their holding, but also obliged them to join it as part of their contractual duties, with a full right to use its benefactions, but not a word to say in the management, as *membres effectifs*. These things are legacies left to us in the old world of Europe from feudal days. Wherever landlordism is strong, it will still claim its privileges, under the guise of benefactions — which "benefactions" are in themselves the antipodes of true Co-operation. The big man may rightly help and may guide. Raiffeisen distinctly wanted him to do so. But it must be as an equal. Co-operation cannot put up with "bosses." I cannot think that such societies as I have just described would form an acceptable model to copy in America.

There are other "landlorded" adaptations in Continental Europe. But in them either Church or State plays so conspicuous a part as accessory, that they had best be reviewed under one of the following heads. In general the record of magnate-ridden or "agrarian" Co-operation is not seductive, for all its promising beginnings. It has created societies, but no Co-operation. It has distributed gifts, but has not contributed to the creation of new sources of wealth. For the main benefits arising from Co-operation, even Co-operation for credit, is not the money of which it supplies the use, but the capacity for turning opportunities to better account by common action. And whatever be the assistance from outside given to Co-operation, the result is bound to be the missing of the principal aim, that is,

the creation of an inherently permanent and independent institution, ungoverned by any one's caprice, who has given and may therefore also withdraw.

The partiality evidenced by the Church — by which in the present case is meant the Church of Rome — for rural co-operation can occasion no surprise. Raiffeisen co-operation was intended to be a moral and religious education, and accordingly the priest, or else the minister, must be its natural ally, and his assistance was particularly sought. To whatever of the leading churches he may have belonged, the ordained officer of the Church has from the outset shown himself a firm and loyal supporter of Raiffeisen's cause, not — at first, at any rate — with any design that one could discover of harnessing small folk by such means to his particular denomination. He acted the part of the good Samaritan. Raiffeisen himself found his principal support among the clergy of the two leading denominations of his own country; and in Italy, where practically there is no Protestantism, the *paroco* (the parish priest) of Loreggia was the loyal ally of Dr. Wollemborg, a Jew, in founding the firstling bank; and in many enough instances have the society meetings been held by permission in the parish church. As time wore on, however, the Church discovered that it had secular interests of its own, which might be greatly forwarded by the help of the popular movement. The consequence was the uprising of "catholic" banks, in which membership came to be made dependent upon churchmanship and submission to clerical rule. "Denominational Co-operation" does not sound well in co-opera-

tors' ears. But there is something to be said in excuse. There are in fact "catholic" banks which have done excellent work, probably with absolute singleness of purpose. And in some countries one can scarcely help forgiving the denominationalism practised, in view of special circumstances. In Belgium, in Italy and in some parts of France Protestantism is not. And if people are to be made religious and moral, they must be attracted to the Church, and the Church there means "Catholicism." M. Luzzatti is the very reverse of a sacerdotalist or "catholic." Nevertheless he has publicly commended the work of the Belgian "Catholics" (who are exceedingly loyal to the Pope) for stemming the rising and scarcely governable tide of Socialism, in their country.

It is not quite easy to say, but it was probably the German "Peasants' Associations" which started the denominational movement — first of all on the "catholic" side. The credit organisations of these associations are pretty faithfully copied from the Raiffeisen system, and they have done a deal of good. As a sequel to the raising of the "catholic" banner in them, there have also risen up some Lutheran unions. But the prevailing tone is still "catholic," with pronouncedly "catholic" large landowners at the head. It was from these "Peasants' Unions" that Abbé Mel-laerts, in Belgium, learnt Raiffeisen co-operation, which, congenially to its new environment, became under his guidance dyed with the most sable hue of "catholicism." It reads queer to Anglo-Saxon eyes that the parish priest is the *ex-officio* chairman of each

local society, and also its "almoner and spiritual director" — unless he appoint a deputy — and that every meeting of committee or members has to be opened and closed with prayer, with sundry "addresses" distributed over the year and an obligatory "high mass" imposed as a duty throughout the union on the calendar day of S. Isidore, who is the patron saint of the union and, finally, a free "mass for the soul" thrown in as a benefit for the departed member. However the *Boerenbond* has done and bids fair still to do much good. And the rampant Socialism of the Belgian industrial working classes is held to call for a strong antidote. Extremes call for opposite extremes. From Belgium very naturally "catholic" co-operation has found its way easily into the Netherlands where, in one union, it has become more intolerant than in its first home. In Switzerland, likewise, the new Raiffeisen movement, which goes on gathering strength, is decidedly tinged with "catholicism." Probably some stimulus of the sort was needed to make it take root in a country in which banking organisation is highly developed and very cheap arrangements for mortgages, even down to very small amounts, make credit easy. For in the early nineties the Raiffeisen movement never got beyond three tiny dead-and-alive banks. Barring the payment of a dividend on shares and reduction of payments to the indivisible reserve — to only half the surplus — it operates on Raiffeisen lines. But it is a "Christian Socialist" organisation (in the continental sense of the word) which has started it and which, apart from some little assistance given by the State,

provides it with funds, so as to make it rather a distributing organisation than a creative co-operative institution. The main stronghold of specifically "catholic" Raiffeisenism — as also of Luzzattism — is Italy. There the "catholic" movement, once started in 1894, has completely overtopped the "neutral," which made its appearance in 1883. The contention between Church and State is in that country so pronounced that it was scarcely to be expected that the Curia would allow so promising and powerful an instrument for influencing the great mass of the peasantry to exist without seeking to put it into its own trappings which, with the rural societies already almost dependent upon priestly assistance, was not a difficult task to accomplish. Pope Leo XIII expressly pronounced his blessing upon co-operative societies of the "catholic" type. One of the intended "feeders" of such banks (still to come) in Spain immortalises that Pope's name. And Pope Pius X was himself a declared co-operator before he became Pope. At the outset the rule of the Church was made to sit lightly enough upon societies. "Catholicism" was more of a badge than of a constraining principle. As time wore on, however, the reins came to be grasped more tightly and the movement consequently became more of a fighting weapon for Catholicism. From a purely co-operative point of view that is to be regretted. For "Catholicism" cannot in this instance be said to have added to the efficiency of the system. Organisation is according to dioceses, with the local bishop *ipso facto* at the head of each. And bishops are not commonly good men of business. There have been some

nasty go-wrongs, which probably less regard for "Catholicism" and more for business might have averted.

Pronouncedly religious as was Raiffeisen's aim, one cannot, in reviewing the whole progress of the denominational movement, see that denominationalism has in general done much good to Co-operation. The cassock notoriously makes but a poor office coat. And generally speaking John Bunyan's "Mr. By-ends" has shown on more occasions than in the "Pilgrim's Progress" that he is no strengthening companion and that the "promised land" lies beyond his reach. Every man had best keep to his own business.

By far the most dangerous of the three forces named, aiming at diverting Co-operative Credit from the straight path, is the State. And yet the State has shown itself the most eager of all to seize upon the opportunities offered to it, like the ruler of Tartarus, who offers a gift to receive a soul in exchange. The State lies under the same suspicion. For — thus far at any rate — it has never offered an inch in this matter without asking for the proverbial "ell" in return. Its pretension shows itself everywhere to be to dictate — and to use. Even the comparatively benign British Government has soon enough discovered its cloven hoof, once the Agricultural Organisation Society had been weak enough to solicit its money aid. That aid was given — of course. It was even pressed upon a hesitating committee. But in return absolute rule was established. It is the Board of Agriculture which has now framed the rules and nominated the Committee; and its spokesman on that body has openly claimed that,

since it is the Government which pays the piper, it is the Government also which should call the tune. In Ireland the great contention now is whether all Sir Horace Plunkett's splendid work in organising agriculture — which has enlisted the admiration of all the country, from King Edward downward — shall be set aside for a badly put together scheme which the farmers have shown that they do not want. If these things are done in the green tree of constitutional Great Britain, what is to be looked for in the dry trunk of the Government-ridden Continent? There Governments are after votes — and after votes which are to be directed at will. Where there is no Crown, as in France, there are parties alternately holding the helm, bidding in competition for the support of country folk by gifts out of the taxpayers' pocket, but claiming also to use those votes in their own way. Dr. Hugenberg's very frank admiration to this effect as regards the Government-ridden movement in Germany has already been quoted. Dr. Heiligenstadt, for his part, the President of the State-endowed Central Co-operative Bank, who accordingly dispenses the gifts which the Prussian State sets apart for "loyal" co-operators, has admitted in Parliament that the institution over which he presides — with unquestionable business ability — was formed and endowed with nearly \$20,000,000 of public money, as a means of providing a "head," a leader, for the co-operative host. Without such official "head," so he added, it would have constituted "a danger" for the State to allow so many people to combine in societies. That reminds one of the palmiest days of the second

French Empire, when all associations of citizens not especially approved by the Government were forbidden, and of the earliest days of the tyrannical First French Republic, which in 1791 by special law likewise interdicted the formation of societies of citizens of any sort, for fear that they might hatch seditious plots. The two edicts relegated Co-operation, which the French people were wistfully thinking of, to a far future.

That is one objection to State interference. The State interferes, in order to rule. It gives, in order to get more back in return. Or, if it do not cherish such intention at the moment when starting on its course of action, opportunity very soon comes in to make of it the proverbial "thief," who under a pretence of kindness takes advantage of his power. And in this matter all Governments are alike.

There are some countries, to be sure, in which it appears difficult to steer clear of all State initiative. Thus we could not have begun a co-operative credit movement in India — richly beneficent as it has already proved — without the State taking the lead — even beyond passing the Act necessary to legalise it. But I take particular credit for it that — as Lord Curzon has admitted when giving the royal assent to the first Co-operative Act ¹ — it was my warning which determined his Government to cut down State aid to a minimum, which has by this time, thanks to the awakening of self-help, already become dispensable. Once more, in Russia the inert mass of knias-ridden moujiks required to be pushed before they could be got to put their hands

¹ See Sir Thomas Raleigh's "Lord Curzon in India," page 179.

to the plough. Now that their intelligence has been aroused, they are rightly seeking to throw off the golden yoke and rely exclusively upon themselves. And the Russian Finns, who have a movement of their own, contend that without Government aid, in the shape of public money for their central bank, they could not have started those co-operative banks which they now find so extremely useful. They may be right or they may be wrong. In any case that "miller's thumb" pressed upon Co-operation has even there — has to a far greater extent in Russia proper, in Roumania, in France and in Austria — left its ugly mark upon artificially stimulated Co-operation. The determination to rule autocratically and to exploit was very clearly revealed in the action of the Prussian State-endowed Central Bank when its President by his tyrannical attempt at dictation brought about his dramatic rupture with the Raiffeisen Union. He fondly persuaded himself that he had the Union helpless within his grasp. He had miscalculated. Raiffeisenism resisted — and carried the day — and is the better for it.

However there are more reasons than this to make it advisable for co-operators to beware of an alliance with Government. Government may do a great many things. Among the services which under the double cross of St. Stephen it has rendered to Co-operation in Hungary, Count Joseph Mailath, the present leader of the Magyar co-operative movement, includes as the chiefest the pressure which, through the army of its servants, it has been able to exercise upon the population, to form co-operative societies, such as it desired,

to order. Here are his own words.¹ "Here was the money (provided conjointly by the Magnates and the Crown) to begin with; however the main advantage (viz, of Government interference) was, that public servants now considered it to be their duty to promote the undertaking with their influence, and bestirred themselves actively in its behalf." Quite so. The thing is rampant both in Hungary and in Austria — and elsewhere as well. Public officers under Government precept employ their political power to press people, quite independently of their own wishes, to form societies which are dubbed "co-operative," but which in not the remotest degree deserve that name. They are societies "to please the authorities," dependent for life upon the Government's smile and withering away as soon as such smile, and the favour which lies behind it, are withdrawn. Experience has fully established the fact that genuine, creative co-operation can live only when based upon its own efforts and thoroughly independent, called into being by the earnest will of the people who practise it. A Government may teach, instruct, assist with means for obtaining knowledge. It need grudge no generosity on such work. But the resolution to co-operate must be the free will act of the co-operators themselves. As for money help, Laurence Sterne well observes that "not all is gain that is got into the purse." There is "lucky money." And there is also very unlucky. Look at the millions (of marks) of State money

¹ See the Report of Proceedings of the Sixth Congress of the International Co-operative Alliance. 1904. (Published by P. S. King and Son, Westminster), p. 451.

wasted in Prussia on "co-operative" elevators which would not live! Look at the money thrown away in Italy on the *contadino impreparato*, that is, the peasant unprepared for and uninstructed in Co-operation! Look at the money wasted in Austria on societies that were formed with taxpayers' crowns, only to collapse! And look at the Hessian banks which, indirectly at any rate, rested on State coddling!

Government is unfitted to direct — and therefore to aid — Co-operation, because it cannot distinguish between man and man, and case and case. It necessarily has to proceed mechanically, by rule of thumb, because all with whom it has to do are equally citizens. Now that is the last thing that will answer in matters of credit. The particular object of Co-operation in that application is to distinguish between the good borrower and the bad, the legitimate case and the illegitimate, in Professor Carver's words, to know how to *refuse*, as well as to grant, credit. It has to use human brains in every transaction, regulating its action accordingly. It wants in its officers responsibility to members, not to a political authority, which may forbearingly, in the favoured man, take the will for the deed and lose others their money. And we ought to bear in mind, in addition, that the object of Co-operative Credit is not simply to distribute money, but to teach co-operators how to employ their puny forces, how to take advantage of opportunities by common action — just as the object of Education is not to cram pupils' heads with facts and figures, but to teach them how to use their brains.

There is a great deal of Government-started and

Government-directed Co-operation in Europe. But the number of its institutions is superior to the value of their achievements. Germany, and in it above all others Prussia, always suspicious of independent Co-operation — as we have seen — set the tune. It created its State-endowed Central Bank, on behalf of which it is set up as a boast that it does not interfere in the *organisation* of societies. No; not formally. But it holds the power of the purse which is, as we know in constitutionally governed countries, the pith of the matter, the Archimedean point from which the world may be moved. And it is not from regard for Co-operation that it forbears to interfere in organisation, but from regard for its own safety. A regional union of banks makes a safer borrower to lend to than a mere local society — especially as the State bank compels the local banks for its further protection to interlink their liability, so that one becomes answerable for all the others, which is a most dangerous practice for any bank to agree to. State aid and interference have not altered the *form* of organisation much in Germany, but they have essentially altered its spirit. And we see the results in the continued refusal of the Schulze-Delitzsch banks to have anything to do with the State bank, in the defection of the Raiffeisen Union, the dissatisfaction expressed by the Union of “Trade Credit Societies” and in the yearning for power to rebel evidenced among the members of the Imperial Union.

The adaptations carried out in France by reason of the intervention of the State differ somewhat in character from those effected in Germany, but not very

much in their results. The original idea of the prime movers in the matter was to acclimatise the Raiffeisen system in France. It was the success of the Raiffeisen banks that M. Méline, then already the leader of what may be called the agricultural party in France, pointed to when demonstrating his desire to stimulate people to emulation in his own country. And the founder of the first agricultural credit society established in France, M. Bouvet, of Poligny, wrote me twenty years ago that "no doubt it would have been better if we could have established Raiffeisen societies." It was from the Raiffeisen Union that M. Louis Durand learnt his co-operation. And the *Centre fédératif*, which was the first body systematically to set itself to organise co-operative credit societies in its country, placed the Raiffeisen system upon its programme by the side of M. Luzzatti's. However it appears that the average Frenchman lacks initiative of his own and wants to be driven. M. Bouvet had to devise a new system, financed and directed to some extent by himself. M. Durand's first two — purely Raiffeisen — societies soon collapsed. And the *Centre fédératif* never made any headway to speak of, either with Luzzatti or with Raiffeisen banks. Closely following the German example seemed, of course, out of the question. Politics forbade that. There was, accordingly, to be no central bank, as in Germany. Whereas the German Central Bank forced itself upon a co-operative system ready made, the French Government began by creating a central fund, growing to huge proportions, under its own management, with the help of which it proposed, and

continues to try, to organise a co-operative system subject to its sway. So in one respect it interferes more with credit societies than does the German bank, while on other points no doubt its action is more restrained. Like the German bank it deals — in the main — not with single local societies but only with “regional banks,” composed in each case of a cluster of local banks, but really charged to create such. It is, of course, easier to deal with not quite a hundred regional banks than with some thousands of local societies and, although the organisation of regional bodies is different from that in Germany — where the district central bank is supported by a very network of entangled local liabilities — still, since it is the regional bank which holds and dispenses the money, the security given is better. The regional banks are advanced — and some of them at any rate look upon the advance as a gift — money allotted to them by a Government Commission which has an unfettered hand in the matter, free of interest, on condition of relending it to local banks at a very moderate rate, which should not exceed the bank rate of $2\frac{1}{2}$ per cent., but has in many cases been fixed at only 2 per cent. Such arrangement has in times of tight money led to the most unbusiness-like result that, whenever more money was required — which is usual in times of tight money — since the Government advance was only limited, such “more” had to be acquired at a rate which made the bank the heavier a loser the more business it did. Practically it is the regional banks — in shares of which local banks designedly invest *all* their own share money, since in such shape every

franc of theirs commands potentially four francs of Government funds — which lend, and the local banks which only adjudicate upon the case. Government interference has necessitated some very restricting mechanical limitations — as to the object of the advance, the purely “agricultural” calling of the borrower and so on — which have of course worked badly and are therefore about to be recast. Notwithstanding excellent administration at headquarters, in the Ministry of Agriculture, among a huge host of banks created to give employment to at any rate a decent part of the public money voted, the results have been rather the systematised distribution of money cheapened by very artificial means than the creation of productive Co-operation. A Select Committee of the Chamber of Deputies appointed to inquire has recently reported in the same sense in which the Director of Agricultural Credit has repeatedly complained in his circulars, that money is only very tardily repaid and that funds are not accumulated as was intended.¹ The Government intended its assist-

¹ “Le Crédit agricole, tel qu’il fonctionne actuellement, n’est pas à l’abri de tout reproche, et sur deux points au moins on peut relever des vices dans son fonctionnement.

“C’est d’abord un abus général des renouvellements de prêts. L’honorable M. Raynaud, Ministre de l’Agriculture, relevait déjà cette imperfection dans son rapport du 23 novembre 1910 au Président de la République: ‘Certaines caisses,’ disait-il, ‘n’exigent pas de leurs emprunteurs un engagement précis en ce qui concerne la date du remboursement du prêt demandé, et des renouvellements trop nombreux en prolongent la durée d’une façon anormale et qui n’est pas sans danger. Il est des caisses régionales qui cherchent, par des artifices variés de leur comptabilité, à dissimuler en quelque sorte inconsciemment à elles mêmes et à l’Administration la véritable situation qu’elles se créent ainsi et les dangers auxquels elles s’exposent et qui leur ont été souvent signalés.’ Ces dangers sont réels, car lorsqu’un agriculteur vend une récolte obtenue à l’aide d’un prêt et ne rem-

ance to serve as a preparation for fully independent Co-operation, like that practised in the Raiffeisen Union. However members shrink from accepting the required liability and prefer artificially cheapened loans to the gathering up of an endowment fund of their own. Hence the law is now to be recast.

Here is another attempt made to create Co-operation from the outside, with the help of outsiders' money, by mechanical methods, which may be said to have failed! No wonder the more responsible agricultural opinion, as reflected in the Agricultural Syndicates, has rebelled and is trying to form its own independent central institution. In Government quarters the dissatisfaction of these gentlemen is attributed to political motives. The Agricultural Syndicates are said to be

bourse pas la caisse locale, celle-ci perd tout contrôle sur l'usage de l'argent qu'elle a prêté, et son emprunteur peut se trouver un jour dans l'impossibilité de la rembourser sans qu'elle s'en doute.

"En outre il existe une tendance regrettable, parmi les sociétés de crédit agricole, à considérer comme des dons les avances temporaires que l'Etat leur fait. C'est ainsi qu'au mois de mars 1910, dans son rapport à l'Assemblée générale, le directeur d'une caisse régionale s'exprimait de la façon suivante: 'Nous ne pensons pas que l'Etat nous oblige à rembourser un jour les avances qu'il nous accorde aujourd'hui si généreusement.' Et il parlait ailleurs 'du cas bien improbable où l'Etat demanderait le remboursement de ses avances...' Le résultat d'une conception aussi abusive est qu'en 1909, si l'Etat avait accordé pour plus que 47 millions d'avances, il n'avait reçu que 2,800,000 francs de remboursements. Et jusqu'à l'heure actuelle, les remboursements sont demeurés aussi insuffisants.

"Le crédit agricole n'a pas atteint en France, même depuis cette nouvelle organisation, le développement qu'on lui voit prendre ailleurs."

Rapport fait au nom de la Commission du Commerce et de l'Industrie chargée d'examiner le projet de loi ayant pour objet l'organisation du crédit au petit et au moyen commerce, à la petite et la moyenne industrie et aux associations ouvrières de production. Par M. Landry, député.—Chambre des Députés. Session de 1913. No. 2590.

ruled by royalists. To some extent this may be true. However the arousing of party spirit is unavoidable, once the direction of a movement which ought to be non-political, and the supply of it with money, are left to a distinctly political authority, like the party Government. If royalists and "Catholics" rebel against a "secularist" and "republican" Government's action, it is that Government which began the strife by invidious discrimination against societies which in the opinion of lawyers are as fully entitled to benefits as those patronised by the Government, but which on a purely quibbling plea are placed on the index. Such "republican" movement is on the same lines as the "Catholic" in Italy and Belgium, only marching in the opposite direction.

Italy, the land of free credit Co-operation of the Luzzatti and Wollemborg type, has its own little tale to tell of unsuccessful Government-forced Co-operation. Co-operation postulates a certain amount of economic education and fitness; and it also postulates a certain amount of economic independence. Such conditions prevail in the North of Italy, where accordingly Co-operation prospers. They are not to be met with in the South, where distress among the rural population is great and appears on that ground and on others particularly to call for Co-operation. The remedy occurring to the mind of the Government accordingly was to form Co-operation with the help of money provided by itself and by great public institutions such as the Savings banks — money to be dispensed by other great institutions like the Bank of Naples under its direction.

Of course out of such assistance it was intended that independent Co-operation should in due course grow up. However, as a Government writer, Dr. Baccaglini, has put on record in a Government Report,¹ and as is notorious from the comments of non-Government public prints, the attempt has produced only very sparing results. The explanation is that, as a writer in the *Cooperazione Rurale* has pointed out, the Government has been all the time "boring with the wrong tool." The rustics of the South are backward, uneducated, primitive — so it is true. But, also, they have no solid ground to stand upon. They are tenants at will, whom a capricious, arbitrary and greedy class of landlords dispossesses at pleasure, as soon as some other man offers a lira more rent. With such negation of security for their existence you could not expect these men to co-operate. They have nothing to co-operate upon! What they want first is fixity of tenure, at a fair rent. That being acquired, with the help of education it is probable that self-interest would lead them into Co-operation without any forcing. We have the proof of this in the truly remarkable success of collective land hiring (*affittanze collettive*) among the very same class of people in Sicily. It gives them their own holding for a good spell of time. And out of Co-operation in land-renting appears to be already growing up a desire for co-operation in other forms, to make that collective renting more fruitful of results.

¹ "Credito Agrario La Legislazione Italiana sul Credito Agrario. Cenno storico e critico dell' Avv. Alessandro Baccaglini. Roma 1911."

In Austria it is rather the local Governments who organise and befather credit co-operation, than the imperial, although the latter helps materially with money. Austria is not really a compact empire, but rather a congeries of heterogeneous states under one head, but having for most things their own separate governments, legislatures and legislation. The various legislatures are very much given to "meddling and muddling." Accordingly the Raiffeisen system—which they have all fixed upon as the model type to be cultivated—is there not by any means generally pure, although there is some that is good among it. That befathering has produced respectable numbers of societies under the forcing of public officers working for their promotion, but of such societies not a few regularly come to a premature end. Apart from Credit, Government has lost not a little money in "supported" co-operative undertakings, which have not lived long, as was to have been foreseen. A rather noteworthy feature about Austrian Co-operation is that non-German races—considering themselves of course under "alien" Government—put far more "back" into their co-operation than German, acting with greater "verve" and showing greater readiness to make sacrifices for what they consider to be a specifically "national" cause. That is only an additional proof that to produce genuine, fruitful co-operation push from inside is required, not from without.

Once more, in Roumania co-operative agricultural credit—of which there is plenty—is altogether a creation of the State, which has shown itself so kind in its

benefactions and guidance that people now rather dread the prospect of being thrown upon their own administration. It is so pleasant to have the Central Bank to provide money, inspection, everything, and simply to live upon what through it the Government gives. That is possible in a small country, where people have been long accustomed to obsequious — not long ago it was absolutely servile — submission. But it is not healthy co-operation. It creates nothing that will stand by itself and is a burden rather than a support to the community. No doubt the Government had to take the initiative, or nothing would have been done. And now, like Sindbad the Sailor, it finds it difficult to shake off the load which it first placed upon its own back.

It would be idle to look for precedents in such countries as Spain and Portugal, where the movement is in its first infancy and cannot yet find its bearings. The Scandinavian countries have plenty of agricultural co-operation, but practically no co-operative credit — except for mortgages. Nor yet could we look for much guidance to Russia, to its to some little extent self-governing dependency of Finland, or to Bulgaria, notwithstanding that in all these three countries imitation Raiffeisen Co-operation has gained a very good foothold and has rendered capital services. The circumstances there are widely different from those which we have here to consider. Co-operative spirit is strongly developed in Finland with its sturdy, manly, faith-keeping population. There, as well as in Russia proper, the districts of banks have had to be greatly expanded, under orders from Government. That how-

ever weakens the main feature of Raiffeisen Co-operation. Also, in some part owing to this, in Finland, shares have had to be made larger, and further inroad has been made upon Raiffeisenism by declaring the reserve fund divisible. In Russia *soi-disant* Raiffeisen Co-operation is still altogether under Government domination. Raiffeisen's ideal aim has been wholly discarded. But attempts in the direction of attaining emancipation are in progress which, it is to be hoped, will restore what has been cast aside. Economic conditions in rural districts have so much advanced of late years that there is a good promise of a successful new departure. In Bulgaria similar conditions prevail, with results already noticed. In every one of these three countries has the Government rendered very substantial help, but only with the result of ingraining in its beneficiaries a habit of dependence.

In India of course the peculiar conditions of the country rendered State help indispensable for a beginning and State laws as well as local circumstances have caused many departures in form from the original Raiffeisen pattern. But, so far as can be judged, the right spirit has been preserved and the system appears to suit the temperament of the Asiatic races, both Hindoo and Mussulman, perfectly. Circumstances in that eastern country are too different from those which we have here to reckon with, for a review of the results obtained to be quite in place. One point, however, is deserving of notice. Before Co-operation was made possible by the Act of 1904, there was terrible croaking in many quarters that the thing must prove

impossible. There was no money, no education, no understanding of the thing, nobody among the millions of illiterates to undertake secretarial work, caste divisions must prevent common action, the usurer was too powerful, and so on. The Act has come, a handful of Registrars have been set to work, and there are thousands of banks (there were over seventeen thousand at Midsummer 1915) doing business, in which as yet as good as no loss has been made. Enormous good has resulted. The country wears a different aspect. New hope gilds the horizon for the rayat. And in the words of a native Registrar, "India has never before received so great a boon." The lesson of this is that we should not be deterred by difficulties such as have been asserted to exist to such a degree as to make the enterprise hopeless in *every* country where subsequently Co-operative Credit has taken root and flourished. "Everybody told me," so writes Dr. Wollemborg, the "Raiffeisen" of Italy, "that my undertaking was 'impossible.' And I silently recalled to mind that fine saying of Carlyle's: Every noble enterprise is 'impossible' at the outset." Co-operative Credit has shown that it knows how to overcome "impossibilities." But it is not State aid and State guidance which have enabled it to overcome and conquer. It was the sturdiness of Co-operators themselves.

It seemed fit briefly to review the various adaptations of the Raiffeisen system which have taken place. But I would not hold up any of them as a model for following. They prove, however — which point is of importance — that the system is highly adaptable, and

that it will without detriment accept new forms to make it appropriate to new surroundings. But they also prove that the more faithfully is the original principle adhered to, the better results are likely to be produced, under both aspects, the economic as well as the ideal.

CHAPTER VIII

CO-OPERATIVE MORTGAGE CREDIT

THE *talk* relating to new credit facilities in America is about "Co-operative Credit." However the main *thought* appears to be pointed at Mortgage Credit. The two things are evidently considered as more or less identical. But in truth they are not at all so — or at most only partially. The object of this book is to explain how Co-operative Credit may be organized and practised. The principal task set to the author in the present chapter accordingly is to deal with such known mortgage credit as is co-operative and to set forth its best methods. However it is impossible to approach such subject without previously devoting at any rate a short space to a hurried consideration of the relative merits of co-operative and non-co-operative methods of mortgage credit.

Mortgage credit of course there must be in any country with private property in land. In these modern days landowners cannot do without it. Landowners, like others, require credit to enable them to carry on their business — let alone adjustments with co-heirs, jointures and the like. And it is no more than natural that, as a suitable pledge for credit, an owner of land should in the first instance think of his land as a con-

venient security to offer. It must also appear perfectly proper that wherever debt is incurred for the purpose of improving land, the cost of such improvement should be charged upon the land itself and united with it into one asset. The mischief is that the improvement of land is not by any means in every instance the true object for which the credit is asked. However there is the land; it is the property of the demander of credit; and, instinctively, in seeking credit, the latter will turn first to this most readily pledgeable security, the tangible, seizable asset of his land.

That is all perfectly consistent with common sense. However, evidently, though the land is there and its pledgeableness is undoubted, the method of credit which takes it as security will have to be systematically organised. Wherever it is not so — as at the present moment is thought to be the case in the United States — the want of organisation is keenly felt. Now in the United States organisation undoubtedly presents certain difficulties. There is the shifting character of even the landowning population — which elsewhere is looked upon as rooted in the soil; there is the uncertainty about the real value of the land; there is the want of touch between the lender and borrower; there is the comparative newness and want of settled character of the country; and there is the standing difficulty about title. Hence those irregularities and hardships in the use of mortgage credit which are so frequently made a subject of complaint. And hence also the present cry for organised mortgage credit — one result of which is to be seen in the despatch of the much spoken-of “ Amer-

ican Commission" to Europe. That Commission was to inquire into European methods, of which very much has already been heard in the study of practical economics. Its inquiry has borne fruit in a number of more or less plausible proposals put forward, for the adoption or else adaptation of those European methods. No doubt Europe, with its earlier settlement, with its narrower limits alike of population and of territory, and with its much more extended history of appropriate legislation, possesses the advantage — if advantage it is — of priority and more voluminous experience over America. The study of its credit institutions crowded into a short three months' inquiry, has very naturally produced some little confusion of thought, the effects of which are very traceable in what has been since written and proposed. Among other things, it appears to be supposed in some quarters that the co-operative credit advocated by Schulze-Delitzsch and Raiffeisen — who in truth would not allow mortgage credit in their banks — and the mortgage credit dispensed by the Prussian *landschaften* — which are the only mortgage credit institutions to have attracted serious attention — are the same thing; and that the credit operated by the *landschaften* is "co-operative" in the same sense in which the term is applied to the Schulze-Delitzsch and Raiffeisen banks. There could be no greater and more misleading mistake. There is indeed a "sort" of Co-operation in the practice of the *landschaften*, inasmuch as there is joint action among a number of persons, and as the *landschaft* is a society of borrowers. But the two institutions differ in more than one essen-

tial feature and no co-operator would recognize the *landschaften* as truly co-operative. The fact that there are no ideal objects in *landschaft* credit, such as all co-operators identify with "Co-operation," and that these bodies pursue an object purely of business and profit, we may here leave out of account. For it is *business* that Americans are in this connection thinking of. However a truly co-operative association wants to possess a certain amount of elasticity. It wants to be democratic. And it wants to be free. Now none of these qualities at all necessarily appertain to the *landschaft*. *Landschaften* are limited locally, of course, and to a great extent also with regard to the class of their beneficiaries; they are anything but democratic; and so far from membership being in every instance optional, it began by being, and still to a certain extent is, compulsory. During the six years that I owned some property in Silesia, I was *de rigueur*, together with all my neighbours, *unlimitedly* liable, in the last resort, with all that I possessed, for all debts which the Silesian *landschaft* might incur, although I had not a cent of *landschaft* money invested in my property, therefore received no countervailing benefit. The fact that to some extent liability has been limited — late in the day — and that a wider application has been given to *landschaft* business than was originally contemplated, lending on peasant land being made allowable, alters very little in the general character of the institution. "Allowable" does not necessarily mean "mainly practised." The figures quoted by Herr M. Conrad in the *Jahrbücher für Nationalökonomie und Statistik*, in

respect of a *landschaft* specially formed to cater for peasant proprietors, which show that out of about 30,000 peasant properties in the province of West Prussia (upon which much money has been loaned by way of mortgages, for the most part at a high rate of interest viz. $5\frac{1}{2}$ per cent.) only 4,138 had found their way to the *landschaft* particularly created for them, prove that there is a great difference between the two things. The institution is still in the main, as it was when Herr Conrad collected his statistics, an institution for the *large*, privileged proprietors. A member of a *landschaft* also does not, as a member of any truly co-operative society would do, share in the accumulating benefits of the institution. In a co-operative society the reserve fund amassed would in part belong to him, whether as an indivisible collective possession, or as a fund eventually to be shared out. He possesses, indeed, certain limited elective rights in the selection of some officers. But such rights are very limited. The organisatory machinery is provided for him, in the main by the political authority, which endows his institution with certain privileges, to be used under its own carefully guarded supervision, but which claims a big say in return, and to whose authority he is constrained to bow.

No doubt, in its proper place the *landschaft* is a useful thing and has produced much good. The question is whether the United States is such a "proper place" for it. But one curious feature in the present discussion, by which one cannot help being struck, is, that all proposals for acclimatising the *landschaft* in

the United States hitherto made contemplate the sacrifice of the very main advantage which the *landschaft* was designed to secure and which might be considered as inherently co-operative, that is, the advantage of "bulk." The idea underlying the *landschaft* is that of a large mass of landed property brought together into one pool, valued throughout according to one common, understood standard, on principles likewise commonly understood and accepted, and a correspondingly very large issue of landbonds also governed by a common, well understood standard, which makes them in effect current money or at any rate a widely recognized security. The idea of competition is in the *landschaft* expressly excluded. However in the United States it has been proposed to form, as a corresponding institution, a number of distinctly competing, possibly very small organisations, down to only \$10,000 share capital. That figure has been adopted for the measures brought forward in Washington, and also by the Wisconsin legislature. That means foregoing all that makes the *landschaften* strong.

However, among the several instances of confusion of thought generated by the study applied to European institutions of credit by some not fully informed members of the American Commission there appears also to be this, that some at any rate of the American writers pleading in favour of the *landschaft* as a model to follow, do not mean a *landschaft* at all in the sense properly attaching to the term, but something formed in free imitation of it, retaining characteristics which students of the subject have long

since come to regard as common property, but advisedly discarding others, which are generally looked upon as essential to the *landschaft*, but by no means ideal, namely the very cumbrous working apparatus — compulsory membership as a matter of course — limitation of benefits, magnate rule, investment with judicial powers in the matter of foreclosure and Crown influence. The particular features of *landschaften* which have kindled the desire of some Americans to possess something of the same sort appear to be, in the first place, the application of the principle of terminable annuities, well known in national finance, as also in insurance business, as a means of gradually and — as was thought — insensibly, repaying a mortgage debt; and, next, the raising of the requisite funds for granting such credit by means of an issue of landbonds or debentures, corresponding in amount exactly with the value of the mortgages granted, so as to make a share capital superfluous. This feature likewise is practically copied from national finance. The credit of adapting the two mutually complementary methods to mortgage credit belongs neither to Frederick the Great, to whom it is generally imputed, nor to his adviser in the matter, Bühring, a Berlin merchant — who thought out the original scheme for the *landschaften* in 1767, four years after the conclusion of the Seven Years War, to see it adopted by King Frederick the Great in respect of his newly conquered province of Silesia, in 1769 — but to the directors of a joint stock mortgage bank at Stockholm, which was founded in 1668. In 1754 those directors, having discovered that $\frac{1}{2}$ per cent. sinking fund

would in this way pay off a 100 crown debt in 55 years, whereas mere annual instalments of the same amount would require 200 years for the process, introduced the principle of amortisation into their practice. Frederick the Great's *landschaften* at first simply granted mortgages, as of old, on distinct properties, the only difference being that the entire number of members made themselves in the last resort liable in unlimited liability, for repayment, entering into a collective bond. It was some time before the amortisation scheme was there adopted. It was the *landschaft* of Posen, by the way, formed in 1857, which first made amortisation an indispensable condition. From that centre the practice became gradually extended to other *landschaften*. But even to the present day *landschaften* retain the right to grant ordinary mortgages, for a certain more narrowly limited term of years, without amortisation. Up to the thirties of the last century there was a right of notice for repayment. And within the memory of living men landbonds (*pfandbriefe*) were still made out in respect of distinct properties, whose name appeared in the text. This shows that the scheme, as we now see it practised, was not by any means a matter of sudden inspiration, but of gradual evolution.

The circumstances which called for dealing with mortgages in the manner described were, once more, precisely such as have suggested similar measures to ministers of finance, namely, want of credit and the absence of a suitable institution for supplying it, so that in some way or other the general public had to be

directly appealed to for the provision of the money required. Now, as observed, these two features — which were certainly a discovery at the time, and which have on the whole proved highly successful, having been *first* applied before there was a *landschaft* — have long since become common property and are applied with admirable effect by corporations, which have advisedly shuffled off the coil of a feudal and Crown-ruled apparatus and work all the better for it. Obviously such method of giving credit requires, not an individual capitalist but a permanent corporation to practise it. For an individual could neither grant mortgages of the sort required, nor float the corresponding bonds.

It deserves to be pointed out that in addition to securing for the individuals concerned the two advantages just mentioned, the new institution at the same time also distinctly benefited the community — directly, not merely indirectly, that is, by providing easier credit for agriculture. For it “mobilised,” as the Germans call it (that is, rendered “liquid”) a very substantial mass of funds which in an ordinary mortgage would have been “fixed.” Taking the shape of landbonds (*pfandbriefe*), the mortgage assumes a liquid, readily exchangeable and negotiable shape; it becomes to some extent “money” — “money current with the merchant,” such as an ordinary mortgage is not. A German landbond passes readily from hand to hand; and the fact that it can do so renders it at once a distinctly attractive security.

The new practice has in general proved altogether satisfactory; but Americans who covet it will do well

to note that in Germany it has not been found all Elysian happiness. To the mind of the German landowner it is disfigured by several drawbacks which distinctly impair its value and attractiveness, quite apart from its cumbrous apparatus. These drawbacks will have to be taken into account when the main question comes to be dealt with — whether the Prussian method suits American conditions better than any other.

Since the Prussian *landschaft* is in some quarters explicitly held up as a model, it may seem desirable specifically to consider its peculiar merits and demerits. It was formed for large landowners only, at a time when peasants were serfs, and large landowners — proprietors of manors, *rittergutsbesitzer* — were ipso facto “estates” governing their province and magistrates in their own right. (I myself should have been such if I had not been disqualified from executing the functions by being an Englishman.) Under such circumstances a good deal of power might reasonably be entrusted to these men. The general public — other than the purchasers of bonds — need not be considered. All that the legislative power — absolute at that time — needed to take into account was its own position. Accordingly it invested itself with very considerable powers, of nomination of officers and supervision of business. That point being safeguarded, it might safely entrust the corporation newly formed with the quasi-judicial powers already referred to, namely, of compelling people to serve as officers and of foreclosing without legal process on estates in arrear or failing to comply with the rules, or else — which is in truth only another form of the

same power — in minor cases to seize and administer the property, like a receiver in bankruptcy. The latter is known to be a process far from beneficial to the property “sequestered.” A popular rhyme says: *Sequester machen leere Nester*. It also appeared perfectly proper to provide the new corporation with an administrative apparatus of a distinctly feudal type, copied from the organisation of the “estates.” Its officers hold high rank in the official hierarchy of the country, from the *Generallandschaftsdirektor* downward, who may be a “Prussian Excellency.” Its administering Council, irreverently spoken of by Americans as “committee,” is a tolerably august assembly, in which it is counted a privilege to have a seat. The valuers, familiarly described by Americans as “appraisers,” hold high rank as *landesälteste* or *ritterschaftsräthe* and wear a special uniform on official occasions. All this apparatus makes the *landschaft* “go down” when exercising its peculiar privileges, to which common men would scarcely be allowed to aspire. It also has helped to impress the public, whose money was sought.

That was a long time ago. Since then the peasantry has become emancipated. Traders and manufacturers have found their way into the ranks of “manorial proprietors”; legal processes have been revised and shortened; the volume of available money has greatly increased; the world has become a world of business and everything has become modernised. Also land has acquired a selling value distinct from its “agricultural” value.

One of the consequences of all this is that new *landschaften* have grown up, discarding much of what was considered essential in olden days. Compulsory membership has been dropped, in a few cases also unlimited liability — at the instance of the Württemberg *landschaft*, which first introduced the bold innovation. Peasant property has been admitted to the privilege of receiving loans — so far as it might choose to claim it. However, in the main, the old feudal form has been retained. The *landschaft* is still generally speaking the big man's preserve. It retains the power of foreclosing without process — which is safe (if it is so at all) only in the hands of the big man. And its method remains cumbrous.

Another consequence of the change which has taken place in conditions is this, that other organisations have sprung up by the side of the *landschaft*, which do practically the same business, but do it in a greatly modernised form. And those institutions keep extending their sway, and in truth outstrip the *landschaft*. In countries with conditions similar to those prevailing in Prussia, *landschaften*, more or less adapted, have been tried and have more or less succeeded. So it has been in Sweden, aristocratic country that it is, with many large landowners, and no organisation at the time (in 1836) to lend them money in the shape of long term loans. (There was a joint stock mortgage bank founded in 1668, as we have already seen; but at the time when the first modern *landschaft* was formed, in Skaane, there appears to have been no institution of the kind.) The Swedish *landschaften* have proved

successful, but practically only as institutions for large landowners, who have, by the way, found it desirable to form a central *landschaft* (which is really a Government bank), as a means of giving their bonds the amount of currency required. That once more has proved successful, in marked contrast with what has happened in Germany, where the *Central Landschaft*, formed in imitation of the Swedish, twelve years later, has proved an addled egg. So it is, once more, in Austria and Hungary where, just as in Prussia — indeed more so — Crown influence is potent and magnate rule is in the ascendent. In Hungary the magnate body ruling the concern (the founders and their transferee successors) have in the assertion of their supremacy gone the length of forming themselves into a close corporation. A similar society, formed in Galicia, more or less after the pattern of the Prussian *landschaften*, has furnished the welcome proof that the excessive centralisation practised in Germany, which is one of the greatest blots upon the system and helps to keep small landowners at a distance, is not by any means indispensable. It has mapped out its wide realm into a considerable number of districts, in each of which it has placed an agent to “get hold of the smaller folk,” and has thereby secured for itself additional business. But even so it retains in the main the true *landschaft* character of being a mortgage institution mainly for the squires. There have been some offshoots also in Germany, even one in Southern Germany (Württemberg) — where the same feudal development in the land system, which constitutes so

marked a feature in Prussia, and in the North generally, and which particularly favours the formation of *landschaften*, has not taken place. The Württemberg *landschaft* was the first institution of its kind to substitute limited for unlimited liability, marking thereby a further advance towards a more modern and more businesslike state of things. And, of course, the system has been adopted in the Baltic Provinces of Russia, which are in character and habits German to the core, and very "feudal." The nobility (who mainly own the broad acres) form a close corporation. However, the success of these *landschaften* — in Esthonia, Livonia and Courland — as well as of a cognate institution formed in Poland, has remained small in comparison with the business done, not only by the great institutions endowed and directed by the State, but also with the "mutual" institution organised on different lines in Cherson, which has rapidly extended its sway over three adjoining "governments," and the joint stock mortgage banks, which do the largest business of all.

The Prussian *landschaft* cannot be said to be gaining ground, at any rate in comparison with other institutions. It is rather yielding the *pas* to them. Even in Germany *landschaften* do only a minor proportion of the business of corporate lending on mortgage, to say nothing of the large mass of mortgage-lending still transacted, as heretofore, by private capitalists. Of about \$3,000,000,000 standing out in land bonds in Germany, Privy Councillor Hermes, who for a long time was at the head of the Mortgage

Department in the Prussian Ministry of Agriculture, and must therefore rank as the most competent authority, not long ago estimated that only \$1,000,000,000 was issued by *landschaften*. (The joint stock mortgage companies had at new year 1914 alone about \$3,000,000,000 outstanding in mortgages.) One would think that of all institutions a *landschaft* was the least easy to wreck. Nevertheless the *Credit Agrarbank* in Russia, formed rather pretentiously on *landschaft* lines, with a right of doing business all over European Russia, was saved from going down in 1891 only by being taken over by the State-endowed and State-directed "Bank for the Nobility."

The reason for such dropping behind of the genuine *landschaft* in the race is not far to seek. It is not only that the *landschaft* is cast in a very antiquated mould, but its organisation and processes are cumbersome and out of date, and the whole thing presents itself as something of an anachronism. The very virtues of the *landschaft* seem to conspire against it, and mark it out for disappointment. Its land bonds undoubtedly are a success. They constitute a highly appreciated investment, such as every capitalist is willing to take. They have in the stock and share market even overtopped Government securities, and their quotation is generally steady. However, the borrower has to pay for this. In the first place the valuation is out of all keeping with current land values. From the lender's point of view that is a fault on the right side. However, the *landschaft* is a *borrowers'* association, designed for the *borrowers'* benefit. There

is much grumbling on this score. In the next place, that much praised amortisation by annual sinking fund is not by any means universally appreciated. In theory of course it is magnificent. It is in truth the very *raison d'être* of the *landschaft*. However, the borrower very naturally desires to have all the money that he can obtain on his security, and to have it at as cheap a price as he can bargain for. Privy Councilor Hermes, already quoted as presumably the highest authority, states (in the *Handwörterbuch der Staatswissenschaften*) that *but for the compulsion exercised by the State* it could not possibly have been carried through. Indeed urban holders of real estate, to whose business the Government wanted the same practice to be extended, have not without success rebelled against it — notwithstanding that in its application to house property it is really more urgently needed than in its application to agricultural property, inasmuch as such property is more rapidly fluctuating in value, and owners are more mobile. But at this point, notwithstanding Government's steady pressure, amortisation is distinctly receding. Owners of agricultural property submit to amortisation because they *must*. But such provender does not really tempt them to the *landschaft* crib. And, in point of fact, under *landschaft* rule the provision misses the main part of its object. For mortgages are *not* amortised in the way now so much praised up in America. After a certain time the borrower who has been paying sinking fund is entitled to increase his debt once more by the same amount. That is only reasonable; for the security is

there. And as a rule the borrower claims such right. Therefore the real effect of amortisation is, in the words of Consul Lehmann—who has made a study of the matter—that amortisation in the best case acts only as a temporary savings bank. Money goes in and is drawn out again. Also, as Dr. Hermes explains, the provision about amortisation was not by any means adopted in the borrower's interest, but in the lender's—to keep his security improving. That object likewise is defeated by the withdrawals.

With all this in view it cannot appear surprising that agricultural landowners should have very contentedly turned to other agencies for giving them credit as, one after another, such offered their services, and that they should, in certain instances, have combined to organise for themselves somewhat more modern, freer, though equally useful institutions—in addition to continuing to resort in still goodly numbers to the private capitalist who is, in Germany, far less exacting in his requirements than corporations. He does not, as a rule, insist upon a valuation. He finds that he can easily enough ascertain sufficient for his purpose by inquiry from people who know the property. There is the land register; and there is the assessment to land tax. And, mortgage loans being common, previous indebtedness affords a fair clue to the value of a property. And the private capitalist does not limit himself to the “purely agricultural value” of the property, but takes the selling value into account. For, after all,

The intrinsic value of a thing
Is just as much as it will bring.

Also he does not by any means draw the line at first mortgages or at half the ascertained value of the property. Mortgages are in request, and money is in request. So, as long as the value is considered good enough, it is not supposed to matter whether the particular mortgage stands first or fourth or fifth. It is true that the private capitalist does nothing towards amortisation. He cannot. But, on the other hand, he lends more money, which, like the bird in the hand, is more highly valued.

However, the most serious rivals to the *landschaften* are not the private capitalists but the joint stock mortgage banks, a number of which were formed some decades ago, because *landschaften* at the time actually could not satisfy all the demand for mortgage credit put forward. In truth joint stock mortgage banking is older than the *landschaften*, as is shown by the instance already quoted from Sweden, where a mortgage bank was formed in 1668. In Germany the first mortgage bank formed for its own particular business was the *Kreditanstalt* in Leipzig, formed in 1856. However, the public pawn broking establishments in Brunswick and Altenburg began the practice severally in 1765 and in 1792. In the later era it was the French *Crédit foncier* that set the tune. Since then mortgage banks have multiplied fast and extended their business greatly. They can do precisely what *landschaften* do, but they do it on more businesslike

and less cumbrous lines. And in Germany they have gone one step further; for about fifty years ago they established a Mortgage Exchange at Berlin, at which mortgages are dealt in for all the world like stocks and shares in the Stock exchange.

There was, at first, some prejudice against mortgage banks. *Landschaften*, so it was urged, work without aiming at a profit, or obtaining one. Mortgage banks distinctly lay themselves out for profit-earning, in order to satisfy their shareholders. Hence it was argued that they must be dearer in the rendering of their services. As a matter of fact they are not so. And a zealous pleader for the *landschaften* in America, the Hon. Myron T. Herrick, in his book "Rural Credits" distinctly admits that they are not so. "This is due," so he says, "to the fact that any advantage which the *landschaft* may derive from the gratuitous service of officers (the amount of which Mr. Herrick overrates) and the compulsory service of members is offset by the cumbrousness of their bureaucratic methods and by the superior energy of the officials of the companies, who are spurred on by good salaries and the demand of shareholders for dividends." That is quite true. But there is considerably more. And it will be of some interest to recall at the present time, while Americans are pondering the question, the conclusions which a Russian Commission of Inquiry arrived at in 1859 and the sequels to its judgment. For, in spite of — of course — very essential differences existing in the condition of the two countries, there is, after all, some similarity in the vast expanse of agricultural land to

be fertilised with money, and the newness of the proposed and partially completed organisation of agricultural credit. In both cases credit is greatly wanted. Landowners are throwing out feelers for it in all directions. And the new organisation, such as it is — tentative at best — is endeavouring gradually to find its bearings.

At the date named the great historic reform of the emancipation of serfs had been decided upon, and in view of the impending heavy sacrifice to be demanded of landlords, and the creation of much communal and peasant land without the provision of money, the question of new mortgage facilities became one of vital importance.

The Commission had been appointed, in view of the proposed abolition of the host of institutions — “Agrarbanken” — maintained up to that time by the Government, to consider what organisations it would be most advisable to substitute. It had earlier attempts made by the State — as observed, in an elementary way — before it, and also the example of the Baltic mutual societies formed in faithful imitation of the Prussian *landschaften* of the older type. It argued, very plausibly, just as people argue to-day, that the work of a mutual or co-operative organisation being done, not for profit, and some of it gratuitously, must necessarily prove cheaper in the end than work done by a profitseeking joint-stock company. And they added to that — which is really far more to the purpose — that a non-profitseeking organisation naturally would not tout for business, and so detrimentally stim-

ulate borrowing, because it would not matter to it whether it had much business or little, whereas a profit seeking joint stock company would be sure to use pressure upon landowners to take mortgages, in order to increase its business and add to its profits. (This is not necessarily as sound reasoning as it seems. For a non-profitseeking corporation must have a certain amount of business, to make it self-supporting and it will naturally seek to secure it. The expenses of *landschaften*, according to Herr M. Conrad's calculation, works out — valuation and all — at about 3 per cent. of the loan.) On the grounds stated the Russia Commission reported in favour of "mutual" organisations and, as a means of promoting such, drafted model rules. Those rules were not issued, because for some reason or other the Government did not approve of the Report. It however practically endorsed the Commission's recommendations and made its influence felt in favour of the formation of "mutual" credit associations. Such associations, however, would not form. When one formed, some years after, at Cherson — being destined to prove eminently successful — it was on other lines than those recommended. That "mutual" society — which has extended its business over three adjoining provinces — was originally founded by the *zemstvo*, or provincial government, which provided a fund for starting it. Once more the Government used its influence vigorously to promote the formation of more such "mutual" banks, giving the several *zemstvos* power to do like that of Cherson, and encouraging them to imitate its action. However once

more it stimulated in vain. And the *Bodenkreditanstalt auf Gegenseitigkeit*, which had been formed (for all Russia) in 1866, advisedly as a *landschaft*, on the Baltic (that is, in substance, the Prussian) plan, did not, as already shown, live long, but after twenty-four years' life allowed itself to be absorbed by the Government institution, the "Bank for the Nobility." In Russia indeed, in its backward state, which for the time keeps private initiative dormant, the State appears to be in practice the favourite provider of credit. Its "Bank for the Nobility" — "nobility" in this application standing for the large and medium land-owners — has proved exceedingly successful. And so has the "Peasants' Bank," likewise a Government institution, originally established to assist the newly enfranchised but moneyless peasantry in the purchase of their holdings, but now — according to M. Apostol — destined to become also a mortgage bank in the ordinary sense of the word. State help by the way — be it parenthetically observed — with all its general defects, has likewise in some exceptional cases proved distinctly beneficent in some of the smaller states of Germany such as Hesse, Brunswick and some more, in which on account of the restricted area a conscientious Government is in a position to act in a real sense paternally by its subjects, with the help of peculiarly suitable machinery, which brings the officers of the lending institution into close proximity to the peasant owners, so as to facilitate business and inspire confidence. That is one of its rare triumphs. Prussia was debarred from applying similar methods, not only by

reason of its incomparably larger size, but also by a paragraph in its Constitution of 1850, which distinctly forbids direct interference by Government. That paragraph had to be set aside in 1866, in respect of the newly conquered kingdom of Hanover and the electorate of Hesse, both which territories already possessed State interference institutions which could not well be suppressed. In Russia, for the time being, the State appeared the most appropriate provider of credit. But at the very period spoken of joint stock mortgage banks cropped up and soon carried on a roaring trade — so roaring, and in consequence, so much to the detriment of landowners (who were inveigled into taking unnecessary loans at high rates of interest), that the Government felt itself called upon to interfere, limiting their power and refusing to charter more. There are at present ten. But those ten had on 1st January 1911 (the latest date available for a full comparison) 752,861,803 roubles outstanding in mortgage debts, in respect of an area of 24,107,860 dessiatines (to which should be added 154,171,000 roubles in Poland, making 917,032,803 roubles), as compared with only 83,915,000 roubles standing to the credit of three Baltic *landschaften* and 705,660,974 roubles (in respect of 15,995,785 dessiatines) to the “Bank of the Nobility” (including the absorbed *Bodencreditinstitut*), 153,132,176 roubles (in respect of 3,010,643 dessiatines) to the mutual society of Cherson, and 1,005,546,283 roubles (in respect of 12,950,466 dessiatines) to the “Peasants’ Bank.” The two imitation *landschaften* in the Caucasus, formed after the Baltic example, at Tiflis and

Kutais, had 7,136,000 roubles outstanding. The Peasants' Bank really cannot be brought into comparison with the other organisations, as a mere reference to the area with the amount of mortgage debt upon it sufficiently indicates. Its figures stand for *full* purchase, not one-half or three-fifths value mortgaging, of the property concerned, as in the case of the other bodies. Apart from this, the Peasants' Bank had in its later years vastly extended its business, by the addition of new branches of work, such as the management of the Imperial *Apanage* lands — to be by it converted into peasant holdings — and the purchase of large estates to be likewise parcelled out in peasant holdings. In connection with these transactions it was specifically authorized to take over mortgages standing in the name of the Bank of the Nobility and joint stock mortgage banks to its own name, and to issue, for the satisfaction of demands made upon it, a large quantity of land certificates. Accordingly much of the debt standing to its credit is accounted for by the transfer from other institutions and there was no difficulty about the provision of funds.

By 1st January 1914 the amount standing to the credit of the Nobility Bank had increased to 852,120,000 roubles; that due to the Peasants' Bank to 1,293,428,130 roubles; the debt due to the Baltic *landschaften* had grown to 87,876,700 roubles; that to the Mutual Society of Cherson to 202,035,900 roubles and that to the joint stock mortgage banks to 1,294,174,900 roubles, to which must be added the amount due to the joint stock mortgage bank of Poland, standing at 179,874,-

050 roubles and bringing up joint stock claims to 1,474,874,050 roubles in all.¹ The mortgage claims for the two societies of Tiflis and Kutais had grown, very rapidly, to 66,858,500 roubles. Barring the Peasants' Bank, which, as observed, does not really deserve to be brought into comparison, it is accordingly the joint stock companies which distinctly "take the cake." Between 1904 and 1911 their business had increased by 14 per cent., as compared with a decline of 18.5 per cent. in that of the Nobility Bank and a negligible increase in that of the *Landschaften*. The joint stock companies have made mortgage business directed by corporations popular and, by means of competition — to which should be added also the safeguard of Government supervision — substantially reduced the rates of interest, which used to reach 12 per cent., and even more, 10 per cent. being very common, to, generally speaking, 4½ per cent., the rate rising nowhere above 6 per cent. — exclusive of amortisation, which is of course proportioned to the period of running. That period is comparatively short in all these institutions. Nowhere does it exceed 38 or 39 years, and as a rule it ranges between 34 and 38.

The Russian Commission's argument — still very frequently echoed elsewhere in the present day — is indeed only partially correct. It is quite true that business corporations, working for profit, are likely to

¹ The official statistics a little obscure the facts, (excusably) taking in 34 "mutual" mortgage societies, which are purely urban, for house property, the bulk of whose businesses is lumped together in Petrograd, Moscow and Odessa. These societies show a moderate increase.

“tout” for business — since the more business they do, the more profit are they likely to earn — and so to incite landowners to borrow even improvidently. That danger, however, is likely to be mitigated by competition. But their work distinctly does not prove more costly. And the reason is that in them competent knowledge of business and business ways are pitted against mere amateur work in the *landschaften*. The men employed are not “squires,” but skilled business men. Their methods are business methods. And their valuation is business valuation. The gentlemen appointed by the *landschaften* are very estimable gentlemen, elected by their fellows, accordingly entitled to confidence, and as a rule they know their own district sufficiently well. But that is for the most part the limit of their knowledge. They are bound by set, hard and fast, rather old-fashioned rules, by which to value, and they are responsible to the *landschaft* for their valuation. Hence the valuation under the *landschaft* invariably comes out extremely low, having no reference whatever to the selling value of the property. No wonder borrowers feel aggrieved. A joint stock company, operating over a wide district, in which it can cultivate a large business, is in a position to employ the most skilled valuers, familiar with valuation data all over the country. They do not enjoy the same social standing. They cannot claim the same honorific title or dress for festive occasions in equally gorgeous uniforms. But they can value for the whole country, by a more widely accepted standard than that of the district. And that adds distinctly to the circulation

value of the bonds. Their principal is in competition with other companies, accordingly they will have to value fairly. And, notwithstanding the very modest "compensation" allowed to valuers of the *landschaft* — which is nevertheless prized — the cost of company valuers' work is, in view of continual employment in valuing, in the end likely to prove less.

Landschaft mortgaging, as has already been shown, is not all of an ideal nature in its results. In the first place, there is the habitual undervaluing, which naturally enough landowners grumble at. But that can absolutely not be helped, so long as a *landschaft* is a *landschaft*. Next there is the cumbrous process, which is likewise not palatable to borrowers. Joint stock companies, private capitalists — and it may at once be added, genuinely co-operative societies — are not equally bound by red tape. Then there is the obligation to repay which, like being virtuous, is admirable in the theory, but has its inconveniences in practice. The oversight demanded by the law and charters is really not excessively irksome, since the administering authorities naturally have a fellow feeling for borrowers. The feudal character and the very limited degree in which the *landschaft* lending naturally commends itself to *small* landowners — the very class in whose interest easier credit is asked for in the United States — no doubt constitute a distinct defect; they are inseparable from the *landschaft* as at present organised — as is admitted — in consequence of that body being overcentralised, and accordingly altogether deficient in diffusiveness and touch with the small proprietors, who

eye the distant corporation, so much above them, askance. But they are not a hardship to the actual borrower. However they grate greatly on the public mind. The very small measure in which advantage is taken of *landschaft* lending by small farmers in West Prussia, where the *landschaft* was particularly reshaped to suit their requirements, has already been noticed. Perhaps an even more telling proof of its hindering effect is that met with in the province of Brandenburg, in the very heart and centre of the working sphere of Prussian *landschaften*, Dr. Hermes found that out of about 50,000 properties entitled to be lent upon, only 5,300 actually had at the time made use of that privilege. Nevertheless it may be assumed that not a single one of them was unencumbered with mortgages. That same disability does not attach to other agencies. They can meet small owners' requirements well enough if they like. State mortgage institutions such as those already referred to existing in some smaller States, such as Brunswick, Hesse and adjoining principalities, favour peasant owners above others. Joint stock companies can lend upon small properties, if they choose. As a rule they find it too troublesome and prefer "hunting big game," while there is such to be hunted. But the genuinely co-operative mortgage societies, of which I shall still have to speak, which have cast off *landschaft* trammels, lay themselves out specifically for lending on small properties, and with excellent effect.

Once more, it must be regarded as exceedingly questionable whether that right accorded to *landschaften*,

as an integral part of their working machinery, to foreclose without judgment is in keeping with the practices of modern time and should be entrusted to *any* corporation formed for business purposes. It is scarcely constitutional. It makes the complainant a judge in his own case. The *landschaft*, being a *landschaft*, could scarcely get on without it; and in its own case there are circumstances, already pointed out, which may be held to mitigate the danger. In Prussia the practice is of so long standing that people have in a manner got used to it. But would it "go down" in America? And where, in America, are the men to be with safety entrusted with acting as judges in their own case, when the object is to get money repaid? Wherever the trappings of feudalism have been dropped, such privilege is found to be not at all necessary. The joint stock mortgages companies have to jog on without it and manage very well to do so. Even the most faithful reproduction of the *landschaft*, the *Bodencreditinstitut* in magnate-ridden Hungary, has had to content itself with certain privileges ensuring more expeditious hearing of their cases by the established tribunals. And the Danish co-operative mortgage societies find a contractual engagement entered into with their borrowers entirely sufficient. For America certainly arrangements of this sort appear preferable to that hard and fast right to *ex parte* foreclosure.

It ought furthermore to be borne in mind that the *landschaften*, if they have, on the one hand, made much money available for agriculture — or rather for land

owning — are on the other hand in the first instance responsible for that most regrettable overburdening of landed property with debt, which is at present one of the most crying economic evils that Germany has to struggle with. Not that they directly favour it. Quite the reverse. They draw the limit, as has been seen, much too low to please borrowers. But they were the first in the field to inaugurate systematic borrowing. The French have a saying to the effect that it is only the first bottle, which appears dear. Once that has been washed down, prudential considerations go by the board. It is the same with borrowing on real estate. A little more will make little difference; and it will bring present relief. This evil ought not, indeed, to be exaggerated. If, on the one hand, it is true, as the head of an important imperial department pointed out to me, namely, that there is scarcely an estate in Germany which is not mortgaged, on the other hand what the late Dr. Buchenberger, at that time Minister of Agriculture in the Grandduchy of Baden, and the originator of an inquiry into agricultural conditions in Germany which has furnished most valuable information, told me a decade or two ago is pretty certain still to hold good, namely, that much of the recorded indebtedness of real estate has in reality been paid off, being allowed to continue on the record merely for convenience sake, in order that in the event of a new loan being required, the old deed may serve for the transfer, saving fresh expense. But that proviso applies in the main to peasant property. And peasant property has, as has been shown, little enough to do with *landschaf-*

ten, which cater rather for the large landowners — who have borrowed to such an extent that now the *landschaften* themselves feel it incumbent upon them to interpose endeavouring to cure the wound struck by their own “Achilles’ spear” with rust off the same weapon. They offer to issue “demortgaging mortgages,” which are to supply landowners with the additional money that they require, to clear off debt contracted elsewhere, for a shorter term and at higher rates both of interest and of amortisation, on condition that the borrower engages himself not to raise any more money upon the same property. It is much too soon yet to say whether this rather ingenious process, which has been tentatively resorted to in three provinces is answering its purpose. Landowners naturally fight a little shy of it, because it nullifies the little pledgeable security that is left to them and so deprives them of all further credit. From a natural point of view what is particularly regrettable about such heavy indebtedness is that it was not really incurred for the benefit of agriculture, but for the most part for improvident purposes, to keep a caste, which has become almost an anachronism, in being a little longer for political and military purposes. And it is the political object of maintaining that caste of ultraroyalists who supply the throne with a bodyguard and the army with what is considered the most desirable type of officers, which makes the Government so very solicitous for easy land credit.

At one time, when borrowing upon land had newly come into vogue, there was such a run upon *landschaft-*

ten — then held in the highest regard — that they could not supply all the demand. That led enterprising capitalists to form joint stock mortgage companies after the pattern — rather freely adapted — of the French *Crédit foncier*, which was considered a great success. Such companies were of course not allowed to organise entirely in their own way. Sufficient Government supervision was forced upon them to make their business *primâ facie* safe. A proper balance between mortgages and landbonds issued was insisted upon. Mortgages must also not be made to pay a higher interest than what was allowed to mortgagees. And inspection, which has in many respects proved valuable — was strictly enforced. The safeguards adopted have not in every case proved a barrier to failure, because — just as has happened in Russia — there was at times reckless speculation. Some sixteen years ago, when Germany found itself immersed in a crisis owing to the sudden withdrawal of much British money wanted at home for the war in South Africa, along with some other banks of good standing, four pretty considerable mortgage banks came to a premature end. The fault of this lay, not with the fundamental principle of the institution, but with the insufficiency of the safeguards adopted. Generally speaking the joint stock mortgage banks have done well. It has been found that they can act with greater freedom and discrimination than *landschaften*, just because they are simple business corporations working for profit and nothing more, therefore free from red tape. That profit has not been excessive. Competition has brought

it down to something ranging between six and seven per cent. The possession of a share capital — which *landschaften* do without, except to a very moderate extent in the shape of an accumulated reserve fund — has been found a distinct advantage, because it has enabled the companies to safeguard themselves against the danger — which would presumably prove more formidable still in America — of “cornering,” and “bulling” and “bearing” by speculators among the public operating with these bonds. It is on that ground the co-operative mortgage societies, formed still more recently, have likewise wisely provided for such capital. A company or society without capital would be at the mercy of “cornerers.” It is no more than was to be expected that the business most rapidly developed by joint stock companies should have been in mortgages on house property. House property in Germany has no *landschaften* to borrow from, and its mortgage business was at the time least organised. Such business has increased rapidly and largely. Dealing with house property is considerably easier for a company with an urban centre. On agricultural land *landschaften* were in possession and the powers that favour them did not fail to point out to the public that their service is virtually gratuitous. Experience has exploded the myth of its being therefore cheaper. And in the South, where feudal institutions do not exist, and consequently there are (with one or two exceptions) no *landschaften*, joint stock companies soon managed to find a market in agricultural business, which market is extending.

However joint stock companies are not by any means

the only alternative to *landschaften*. *Landschaften* adopted a *kind* of co-operative principle according to eighteenth century conceptions. Nearly a century and a half have passed since then, and co-operative principles have been perfected. It has been found that there is no need for "that rascal the State," (*der Racker von Staat*) — as the great Frederick called it, complaining of the many demands made upon its purse — poking its nose into matters of pure business. It never does so without spoiling something or other. And so, by the side of the *landschaften*, new co-operative bodies have sprung up, rendering the same services on genuinely co-operative lines. The motive which prompted to their creation was either this, that in the particular circumstances there was no other body to offer the same service, or else that, the ground having been cleared, by other agencies, landowners came to consider that they might do things more cheaply or more conveniently for themselves.

The Danish co-operative mortgage societies deserve to be cited as the best instance of societies coming under the first of the two heads. Denmark is a country of small properties, the number of which the Legislature has advisedly taken means to increase considerably at the cost of large, by giving special facilities for subdivision and acquisition. Naturally, the small owners required credit; because without that their holdings were worth nothing to them. And about 1850, when the new departure came to be decided upon, there was no institution to provide such. Therefore, driven into a corner, farmers in Denmark resolved to take a leaf out of the

book of their northern neighbours (the Swedes) just as the latter had, in 1836, taken one out of the book of the Prussians, only in Sweden for a very different class of owners, mainly owners of large estates, like the Prussian *junkers*. Just as the Swedes had "adapted" the Prussian *landschaft*, the Danes adapted the Swedish "society," so as to make it issue from the process in an altered shape. The Legislature in conferring the necessary powers granted without demur what was asked for and what on the surface seemed safe, abstaining throughout — except in later time in two quite special instances — from affording assistance in money. I see that Mr. Herrick ranks these societies as a variety of "*landschaften*." But they are distinctly of a different order. There is a different spirit breathing in them. All those feudal paraphernalia of the *landschaft* have been cast off, and the feudal spirit has gone with them. A Prussian landowner, doing business with his *landschaft*, feels as if he were doing business with a body outside himself, having distinct interests, which lays down conditions such as he *has to comply* with, if he would have and would retain the loan. The Danish farmer feels that his society is distinctly *his own*, with the same interests, an institution created and managed by himself as fully as is his co-operative dairy or his egg-selling society, and that it is to his own interest that he should carry out the conditions which he himself has been a party to imposing. A rather telling instance of this modernised organisation is to be found in the foreclosure provisions. The *landschaft* under its charter has the right ipso facto to foreclose of its own motion,

without a judgment of the Court. The Danish society is given the power of contracting with its borrower for the same right, *he being a consenting party*, who indeed surrenders all claim for a stay of execution by notice of appeal, but on the other hand distinctly retains the right to seek redress at law in the event of wrong being shown, after the event. These societies must, of course, before presuming to act, obtain a charter from the Government — which charter is in every instance given for a certain marked off district, provided that they can ab initio show sufficient business to warrant their recognition, and if they submit to the Government conditions which in the interest of lenders — that is, holders of landbonds — include that of rigid inspection by the Crown. The Crown also reserves to itself the right of suspending a society or winding it up, should occasion arise. But, apart from that, all is self-help. Members are put upon their responsibility. The administration is their own, and it is democratic. The main points are laid down in the Government charter. Supreme power must in all cases be vested in the general meeting of members, which must be held at least once a year. That meeting has to decide whether there is to be a new issue of bonds and at what rate of interest, and to elect its executive committee of three — one of whom must be a skilled builder (for buildings come into account) — and its council of supervision, which stands above the committee, of optionally from five to nine members. There are also some other points reserved for its judgment. The Committee of course carries out the executive business of the society, and the Council supervises

and holds the Committee to account, under the inspection of Government, which is a matter per se. There is a departure from ordinary co-operative practice in the matter of voting, which however appears justifiable under the special circumstances. Voting is by shares, to this extent, that a holding of 10,000 crowns (about \$2,600) entitles to one vote, another vote being added for every further 20,000 crowns, until the maximum of five votes is reached. A decidedly objectionable feature in one or two societies of the sort is that the bondholders are allowed presence and votes at the general meeting. (This occurs also in some of the Russian "mutual" societies, *e.g.*, that of Cherson). To make sure that the bookkeeping is accurate and true to facts, the Government reserves to itself the right of nominating one of the two statutory inspectors of accounts and making the nomination of the second subject to its approval. These two inspectors have, however, no voice in the actual management. The management is left altogether in the hands of the members themselves. Only in two cases of a very special character — in which business had to be taken up as pioneer work of questionable remunerativeness — has the State assisted with money. In those two cases it has, in return, reserved to itself the right of nominating the chairman, who becomes a sort of watchdog. Otherwise the State has assisted only by remission of fees, of stamps and the like.

The general rules for valuation are in the Danish societies the same as those laid down for valuation for public bodies investing in mortgages. But it is a condition that in every case there must be two valuers,

and in respect of some valuations the three directors reserve to themselves the right of carrying out an independent checking valuation. Mortgages may be given up to three-fifths of the ascertained value of the property. Should such mortgage be issued, all members are made to join in a collective bond for liability up to the full value of the mortgaged property. Should the mortgage be for less, their liability becomes proportionately reduced. But, whatever be the point so fixed, up to that point their liability is collective, one for all, and unlimited. As a matter of course bonds may be issued only to the amount represented by the mortgages granted. But there is no strict requirement to redeem the bonds in precisely the same ratio that mortgages are paid off. In some cases mortgages have been issued for sixty years and the corresponding bonds made redeemable in seventy. There is also a special clause authorising delay in redemption in emergency cases — with the Government's approval — which expedient has been resorted to only in one instance. Bonds must be "negotiable" and may not be issued for smaller amounts than 100 Danish crowns (say a little over \$25) each. Where they are held in tolerably large blocks, say 20,000 crowns, in one hand, they may at the holder's request be "inscribed" or "registered" to his name. They may also otherwise be issued in certain names; but as a rule they are "to bearer." Although 100 crowns is the minimum limit, bonds may be, and are, issued to much larger amounts, up to 5,000 crowns and possibly more. The rate of interest is fixed according to the state of the money market. There are now $3\frac{1}{2}$ and 4 per

cent. bonds. Not very long ago the $3\frac{1}{2}$ per cents. were quoted above par. The rate of interest for mortgages corresponds to that for bonds, and amortisation is higher or lower, of course, according to the time allowed for running. The bonds are issued in series, each series covering about ten years in point of time, and from 50 to 60 million crowns in amount. The series arrive at maturity in chronological order, but are now almost by preference "bought in." It is for the general meeting to decide in what precise manner redemption is to take place. Seeing that in the matter of immediate liability each series stands for itself, and the borrowers who compose it are responsible, that does not at first glance appear an altogether equitable arrangement. However the charter does not mention "series," but makes all members equally responsible for default, at any rate in the last resort. Also in the absence of share capital — which may prove an inconvenience on this ground, liability has to be made to lap over from one series to another, till the new series has acquired sufficient strength to stand by itself. That is a weak point in the armour of these Danish societies. Fortunately for them there have been no "cornerers" thus far to take advantage of it. Apart from such overlapping liability, something like two per cent. of the mortgage is kept back on issuing it, to provide funds for carrying on. Should that two per cent. not be entirely absorbed by outgoings, the balance, going automatically into the reserve fund, goes back indirectly to members, who in addition are required to pay 1-10 per cent. towards management expenses. The reserve funds are not actually very large.

There are however some windfalls to increase them. It is provided that as soon as a reserve fund reaches 4 or 6 per cent., as the case may be, of the amount of the liabilities, its annual over plus is thenceforth to be employed for purposes of redemption be it by drawings or be it by buying in.

In this manner the dozen mortgage societies existing in Denmark have raised, cheaply and effectively, at the rate of about \$20,000,000 a year, close upon \$200,000,000, which is more than the entire National Debt of the little kingdom. Considering the comparative poverty of the soil, that is a large amount. And it has proved of most substantial help, more particularly to small owning farmers, presumably of the same financial status that America is desirous of rendering assistance to. There is not much fear in their case of the money raised on mortgage being misemployed. And one feature which ought to rank as a special recommendation is, that the landbonds issued command a ready market even outside the country itself. They are gladly bought up in Germany. Indeed, they are as a rule issued simultaneously in Kopenhagen and Hamburgh. And there is some prospect of the market being extended to France, if indeed, that has not yet come about.

One other point wants calling attention to. For the most part these societies do business purely in respect of agricultural property. But there are a few which advance money also on the security of house property, one exclusively so. There is no inherent reason why owners of houses should not join together in precisely the same way as do owners of agricultural land, to

obtain cheap mortgage credit for themselves. They do it in Russia. However the business is certainly more risky, because fluctuations in value are greater and more frequent, and because house property is exposed to more serious dangers than mere land. Indeed the only mortgage society of the sort described in Denmark, which has come to grief and has had to be wound up, was one which made advances on houses. A great crisis occurring in 1857 produced general serious embarrassment. The owners of the houses pledged felt the pinch and could no longer respond to their engagements. By its rules the society was compelled to sell them up, though in the face of a market necessarily without bidders. The houses were knocked down for a song and the society's balance sheet of 1860-61 disclosed a deficit of a round million (of crowns), which of course settled the question of winding up.

As a type of the second order of co-operative mortgage societies, that is, those which take up mortgage business after the way for such business has been planned, because they hope thereby to gain some additional advantage, the *Landwirtschaftlicher Kreditverein im Königreich Sachsen* will serve as a good example. There are two other societies in Germany which claim to figure in the same order, one in Bavaria, the other in Hesse. However both have dipped a trifle too deep into the State pocket and bowed a little too obsequiously to the State Baal to be entitled to rank as quite purely co-operative. The Saxon society has likewise received a modicum of State assistance; but that was only a moderate amount — a matter of \$187,000 — as an advance,

which was repaid within the first four years of its life. Its only connection with the State now is, that a Commissioner of the Government is entitled to be present at the sittings of the governing body, not to interfere, but to watch. Since in return he certifies the bonds issued as being covered by equivalent mortgages, his presence may be said to be of distinct value, because it ensures readier circulation of the bonds. The same regulation holds good with regard to the Bavarian society; but that society has received State aid, in the shape of an advance of \$250,000, free of interest on starting, in addition to a further million at three per cent., and an annual grant of first \$15,000 and later \$10,000 towards its management expenses, which grant has only recently been withdrawn. Barring that difference, both societies are framed on pretty much the same lines, and their object is the same, namely, to supply medium and small landowners with mortgage credit as borrowers' societies, at as cheap a rate as is possible, unrecallable on the society's part and amortisable at a rate corresponding to the period of running. The term "borrowers' societies" requires qualifying. For both societies, having discovered the value of possessing a share capital, wherewith to float new series and to face the attacks of "bulls" and "bears" and "cornerers," admit non-borrowers up to a limited proportion, that is, dwellers in the district "desirous of furthering the movement," who, in Saxony, must possess the further qualifications of being either agriculturists by calling or else landowners in the district. This really is quite on a par with the practice of British co-operative productive soci-

eties which admit non-working shareholders for the sake of their support and an addition to their working capital. Only in the lastnamed case it is becoming usual to admit non-workers, not as ordinary but as preference shareholders or else debenture holders. The Danish societies, working without capital, are under a necessity of making holders of mortgages of one series liable for a certain time for the liabilities of the next series, just to set that series upon its legs. The two German societies are under no such necessity. They are also in a position — the Saxon society at any rate has benefited by it — to pay their mortgage loans out in cash, at the quotation of the day, which is a convenience to the borrowers. There is no fear of the share issuing power being abused. Of course the societies make the taking up of shares obligatory upon receivers of mortgage loans, in proportion to the amount of each mortgage. Thus in the Saxon society a borrower of \$1,250 is required to take up a \$12.50 share, a borrower of \$5,000 the double, and so on, till the maximum amount of \$375 is reached. The limit used to be higher — \$700; and at that time there was no limit to dividend upon capital. As the shares paid well, shareholders crowded in for the sake of the dividend. However the society does not require a very substantial share capital. Therefore the limit was reduced to \$375. In Bavaria it stands at \$5,000.

The formation of the two societies was called forth by the same need. Bavaria has no *landschaften*; but it has plenty of the small kind of agriculture, much of it on very fertile land. Saxony possesses two organisations of the correct *landschaft* type. Like other *land-*

schaften they were found to be catering — and to be able to cater — in the main only for large properties, leaving the small farms, of which the number is very considerable — the farming in Saxony being generally of a high type — unprovided for. Accordingly a well-meaning public man, who was eventually rewarded for his beneficent doings with the title of “Excellency,” in 1866, conceived the happy idea of applying the *landschaft* principle in a democratised form. Notwithstanding the first set back occasioned by the great wars which followed its formation — in 1866 and 1870 — the society has done exceedingly well — so well that on one occasion it has been able to surprise its members with a present of \$66,950 a year remission, by reducing the interest on outstanding mortgages, from 4 to 3½ per cent., and that the gates of adjoining states have been readily opened to it and it now caters not only for the kingdom of Saxony, but also for the several Thuringian duchies and also for adjoining parts of Prussia. The Bavarian society had a wider range open to it from the beginning, its country being considerably larger than Saxony.

Both societies have met with favours from their several Governments, but — after those already recorded — only such favours as are entirely legitimate. There are remissions of stamp duties, fees and so on; their bonds are also recognised as trust securities — but there is no privilege of summary foreclosure without judicial hearing, such as to Anglo-Saxons must appear anachronistic.

The organisation of these two societies is, as observed, fully democratic. Supreme power is in either case vested in the General Meeting of members, which

is by law required to be held at least once a year. It is the General Meeting which elects the Council of Supervision (Board), consisting, in Saxony, of fourteen members, in Bavaria of only five — which is too few. In Bavaria it is also the General Meeting which elects the Executive Committee, consisting of four members. In Saxony the duty of electing the Committee, composed of only three members — to whom, as in the Schulze-Delitzsch societies, much power is entrusted — falls to the Council of Supervision, which — in both cases — stands above the Committee. The remarkable success of the Saxon society is particularly attributed to the happy selection of well qualified Committeemen, which appears to be a result of nomination by a smaller but more highly competent body than the General Meeting. As already observed, a nominee of the Government in either case attends the sittings of the governing bodies with a “watching brief” and the duty of certifying bonds. And of course there is inspection of the accounts.

In the Saxon society, since that was registered before the passing of the Co-operative Act of 1889, which was the first measure to authorize limited liability in Germany, liability continues nominally unlimited. But affairs are so managed that everybody knows that no liability beyond the value of the share is likely to become effective. In the Bavarian society, which was formed much later, under the 1889 Act, liability is limited to the decuple of the value of the \$25 share.

Both societies take good care to bring their ministrations well within reach of the landowners scattered over

the country, by cutting up the territory into comparatively small sections and placing agents in these. In this way the Bavarian society, which operates over a wide district, maintains an army of not less than about a thousand agents. The Saxon society has not so many. But its district is well provided with local representatives, whose duties consist in more than simply sitting still and waiting for applicants. They are to canvass, to make the facilities offered by the society known in such ways as are open to them, to secure members; and they may also collect savings deposits. The society has taken power to receive such. It does not however set much store by this and in preference canvasses for the formation of Raiffeisen societies.

The Saxon society grants mortgages up to three-fifths of the value of properties, the Bavarian only up to one-half. In either case only first mortgages are agreed to. In both cases however the valuation is conducted on more liberal lines than under *landschaften*. The Saxon society's valuation is to be for "agricultural value" only — that is, however, for such price as a cultivating owner would be held justified in paying, which is more than the "agricultural value" of the *landschaft*. Provided that the borrower is willing, the two societies also accept the valuation of the property for landtax as standard, multiplying the amount of "assessment units" by forty. Some *landschaften* likewise offer to estimate the value of properties to be mortgaged by landtax; and the inconvenience of their having different standards of valuation is shown by the difference in the multiplicator applied to that tax. Thus the Schleswig

Holstein *landschaft* multiplies the assessment by twenty, the West Prussian by twenty-two. Should a borrower refuse valuation by "assessment unit," valuation takes place by the society's valuers, with due consideration for any official valuation for other purposes that may exist. These valuers must by rule themselves be members of their own society so as to share in the common liability, and also be "practical men." The practice in the Bavarian society is very similar. However that society leaves itself somewhat greater latitude in consideration of the narrower limit set, making recognition of the "agricultural value" only the "ordinary rule." It includes buildings in the valuation, which the Saxon society excludes — they being otherwise provided for under the law of the land; also standing timber and industrial establishments connected with the property, such as potato distilleries, sawmills and the like. Valuations are generally admitted to have been fair. Indeed the marked success of both societies testifies to this. The valuers are not similarly "big pots" as those employed by the *landschaften*, but they are distinctly better suited to their humbler business, and inspire greater confidence in those with whom they have to deal.

Most of the business done is on the amortisation principle. But both societies also have power to contract for shorter termed loans, not subject to amortisation, but subject to notice, just like the *landschaften*. And they may make loans of either sort to public rate-levying bodies. Amortisation, when it takes place — which is in the great majority of cases — proceeds

on fixed principles which have come to be understood. The Bavarian society allows amortisation at annual rates varying from $\frac{1}{2}$ to 6 per cent., and issues tables which show at a glance how much in each case will have to be paid and for what length of time. The Saxon society as a rule levies 9-10 amortisation, which allows for an additional 1-20 to be added for management expenses, to make up a full $\frac{1}{2}$ per cent.

As already intimated, in the case of either society success has been marked and the result shows that where circumstances are suitable, the same advantages for which as a rule *landschaften* are prized are obtainable without all the overdignified paraphernalia of an antiquated institution endowed with feudal privileges and indulging in anachronistic red tape.

There is another type of genuinely co-operative mortgage credit organisation to be met with in Europe that is deserving of mention. The Belgian *Boerenbond*, a group of agricultural co-operative associations of a distinctly denominational character — strongly Roman Catholic — led to a great extent by its parish priests, but otherwise representing a pure type of Raiffeisen Co-operation — mainly, but not by any means solely, for credit — has already been spoken of. That union of associations, which in matters of credit has reverted to, or preserved, a position of independence of State aid, some years ago determined to perfect its organisation by instituting a special service for mortgage credit, for which a great desire had been expressed among its members, in order to meet as far as possible all the various wants of its agricultural members. Wisely and

prudently it resolved to keep such service entirely separate from its organisation for personal credit. The funds and liabilities of the two services are never mixed up.

The idea upon which the scheme is based is one which has long since found great favour with theorists and has repeatedly been recommended for execution, among others by so high an authority as the late Dr. Buchenberger. Its two main features are: centralisation in the issue, decentralisation in valuation and responsibility. It was first suggested by the success of Raiffeisen societies. Here are these societies, so it was argued, strictly localised and composed of the best members of the local community. Who is there that is so competent to value correctly a local landowner's property and to judge whether he himself is under the circumstances deserving of receiving the loan? One thought suggesting this is that frequently put forward, the justice of which there is no disputing, namely, that whereas the large landowner can well afford to negotiate for a mortgage loan with a centralised body at a distance from himself, the small man imperatively requires the mortgage institution to be brought near to his farm. If there should be any fear of the local valuers favouring their neighbours by putting his farm at too high a value, that danger would appear to be effectually neutralised by the liability in respect of the valuation attaching to the local society. That is the other point in the reckoning. By such means the central society, which furnishes the funds, is to obtain a collective guarantee of all local members, to

shield itself. The loan itself would have to be paid out by a central institution, which alone would be in a position to issue landbonds with any prospect of success. The local society would have in each case to report to headquarters upon the property, making itself answerable, at the back of the pledge.

The *Boerenbond* has its central bank at Louvain, which up to the outbreak of the war was well able to provide the required funds to be obtained by the issue of bonds. Under the scheme in force it is in addition authorised to act directly in respect of properties situated in localities in which there is no local society. In such cases the Central Bank values as well as pays and takes the sole responsibility — all at a slightly higher rate than where the local society intervenes. The *Boerenbond* repays itself by amortisation, but has fixed the time for repayment at a much smaller number of years than do the *landschaften* and the French *Crédit foncier*. It holds — like some people in the United States — that every generation should be made to clear off its own liabilities, and therefore insists upon repayment within twenty-nine years at the outside, which of course increases the figure for the annual amortisation.

It is at the present time still much too soon to say whether this scheme — which was most cordially acclaimed by the members on its introduction — has met with sufficient success to warrant its adoption elsewhere. The *Boerenbond* itself appears satisfied with the modest results thus far obtained. It is, the war apart, peculiarly well situated in the matter. “Catholic” capitalists, in a country in which “Catholicism” is a fighting

force continually trying conclusions with Socialism and Unbelief, are not likely to allow an avowedly "Catholic" enterprise to go a-begging. It is in very truth one of their own fighting weapons. They have taken up the bonds readily at a very moderate rate of interest, to wit, $3\frac{1}{2}$ per cent. But it must be evident that in the open market bonds so issued are likely to have much less of a chance. To begin with, assuming that the members of the local Raiffeisen society are the best judges and valuers in each case, and recognising the fact that they are bound in unlimited liability — which supplies, we will say, a safe pledge — what guarantee is there that their society will continue, and be equal to its liability, to the end of the term? Members may go out as they please and the entire society may decide to wind up. The same objection attaches to the Central Bank, in which liability is limited, and which may likewise wind up long before its bonds are redeemed. The seeming improbability of such an outcome cannot be held sufficient guarantee for a man who parts with his money. The Raiffeisen society, so it may be added, is equal to a certain amount of liability. However that liability cannot be indefinitely extended. The horse that comfortably carries one man may break down under two.

A scheme very similar to that of the *Boerenbond* was some time ago submitted to the Union of Raiffeisen societies, then still at Neuwied, by the Rhenish "Landbank." Similar feelers have in fact been thrown out repeatedly by *landschaften*. The "Landbank" was to act as Central Bank, providing the money and issuing

the bonds. And the local Raiffeisen societies were to become its feeders, carrying out the valuation and making themselves liable for local losses. After some reflection — for the scheme had its attractive points alike for capitalists and for farmers — the Neuwied Union came to the conclusion that in agreeing to such a scheme its societies would be overstepping the limits of their proper province, and declined. Obviously, in spite of some outward appearance of similarity, the task proposed to the societies would have been of a very different character from that for which they were formed. Small men though the members be, they can undertake to make themselves answerable for short term loans, because they can watch the borrower and day by day control the employment of the loan. When it comes to mortgages, they can do nothing of the sort. The question of employment does not arise. There is a liability for a comparatively large sum, which may become effective in a lump all at once. It must also appear highly doubtful whether a body like the *Boerenbond's* Central Bank, unsupported by zealous party feeling, such as is willing to run risks, would be able to place the bonds which it might be ready enough to issue.

Enough has probably been said to make it clear that there are a variety of ways open for organising mortgage credit, some of them co-operative, but failing to fall into the inconveniences of *landschaft* credit. There may be other ways still. At any rate here is a variety already, among which to make a choice. Of the co-operative schemes the Saxon and the Danish appear to deserve the preference. They are co-operative

and they are in keeping with modern conditions. If they do not possess all the dignity and privileges of the Prussian *landschaften*, they have shown themselves fully as effective. Attention should more particularly be called, incidentally, to the power which the Saxon society has shown itself to possess, of reducing the rate of interest on running mortgages. That seems unlikely to happen in the case of a *landschaft*.

There is another point to be taken into consideration affecting the choice between a *landschaft* and some other organisation. All organised mortgage credit of such sort as has been reviewed is rendered difficult in the United States, as well as in the United Kingdom, by the absence of compulsory registration of title, on which in truth all the schemes reviewed are based. They apply where there is no difficulty about title, where no searching into deeds and preparation of "abstracts" are necessary, but where real estate is simply, cheaply and absolutely conveyed by a mere entry in the register, as under the Torrens system. That makes an enormous difference in dealing with real property. Our antiquated English and American system makes conveyance of land the Tom Tiddler's land of lawyers, which accounts for the stubborn opposition offered to its improvement. We have made an attempt in England to introduce general registration of title gradually. An act of 1897 authorises County Councils to introduce compulsory registration within their area. Thus far however only one county has taken advantage of such authority, and that is the wholly urban county of London. Such as the existing state of things is, how-

ever, a body other than a *landschaft* (which could not depart from its hard and fast rule) whether it be a private capitalist or a co-operative society in the hands of its own members, or a joint stock company governed by a Board — would have less difficulty, with its more elastic organisation, in adapting itself to what prevails than the *landschaft* itself. Such lender may make allowances, as in fact private capitalists now do, and be satisfied with what appears to it or him to be convincing proof of the good quality of the title. In practice probably the risk so incurred would not be great. But it would be an enormous help to the organisation of real estate credit, if the United States could adopt the Torrens system, as several states have tried to do, being overridden by a decision of the Supreme Court, which pronounces such move contrary to the Constitution. Therefore if you want to have well organised mortgage credit in the United States, I should say that the way to that goal ought to lie across the Torrens system.

Whether the United States are economically ready at the present time for the adoption of a co-operative scheme is another matter. And it is the answer to that question obviously which must decide the problem. To the present writer the point appears doubtful. Those European co-operative schemes have found homes in countries in which there is a thoroughly settled rural population, in which conditions of holdings, value and the like are also settled. There are comparatively few changes there that take place. No properties are abandoned. The population is not shifting. Societies

know that in the main the same membership will continue for an indefinite time. Therefore a society could count upon stability and holding together. Members in it are known to one another and keep in close touch with one another. Values have long since found their level. The market, too, has become settled. Land-bonds have conquered a place for themselves, which differentiates them greatly from Argentine cedulas and the like. Now do these same conditions apply to America? The answer seems doubtful. It rather looks as if the ground for co-operative mortgage credit had still to be prepared. You want to do the rough work — plough and harrow, it may be subsoil plough and drain, and roll, and crush the clods — before you can attempt to sow the co-operative seed. Co-operation is a most effective instrument. But it has its distinctly delicate points. It is absolutely dependent upon assured safety. Then had not the first rough work best be left to the more robust force of Capitalism, which knows how to adapt itself to uncertain circumstances? The private lender proportions the rate of interest for which he asks to the risk which he considers that he runs. A co-operative society could not do that. The capitalist also knows how to adapt his demand for guarantees to each several case. He treats indeed, every case per se. Capitalist institutions of modern type have rendered very useful service in the matter of lending on mortgage. They work for profit. However the very quest of their profit has taught them how to economise working expenses, by the selection of the fittest officers and the study of the most businesslike arrangements, so as

to enable them to lend no more dearly than *landschaften* and with far greater elasticity. Would it not be more advisable to allow institutions of this sort — it may be, side by side with National Banks, which have some scope still for engaging in such business — to act as pioneers, explore and prepare the ground, leaving Co-operation to come in later — as it has in effect done in Saxony and Bavaria — to improve, so to put it, the produce of a more robust wild tree, by the graft upon it of sprigs of better plants? It will be for Americans to decide according to an intimate knowledge of the conditions of their own country.

CHAPTER IX

IN THE WAKE OF CREDIT

THE direct effects which Co-operative Credit has produced in countries in which it is systematically practised cannot be described as anything less than marvellous. The total sum raised must be something stupendous. Unfortunately there are no statistics that can be looked upon as at all either complete or trustworthy. However we know that in Germany less than a thousand Schulze-Delitzsch banks have raised something like \$750,000,000 a year by co-operative means in steadily increasing volume, to distribute among their members, in whose hands the money is left to fructify, giving bread to the eater and seed to the sower, and after that returning with interest to the cash box from which it was first taken. No other organised body of co-operative banks has operated collectively upon the same grandiose scale. However, among those many thousands of banks the collective total must be something very considerable. And it has been produced at a very small cost, with only a comparatively very small share capital, securing the lender by other and more homely means than those in use in the banking world, the foundation of which is capital. And co-operative banking has turned that immense sum loose upon pro-

ductive employment just where it was most needed and bound to produce the largest general benefit, for its borrowers and for the community, that is, at the bottom, or nearly so, of the social pyramid, where the dollar, added to by labour, produces most largely in proportion to the outlay, and at the same time diffuses most comfort and contentment. That dollar has gone forth, providing employment for the worker, business for the tradesman, agricultural requisites for the farmer, enriching the many and adding to the resources of the State — not gilding the mountain tops of millionaire wealth, but fertilising the humble plain, and so levelling the entire mass of the population upward. At the same time it has served as a potent stimulus to thrift, and has emancipated and levelled morally upward as well, producing at the same time better-to-do and better men. It is the cottage and the humble citizen's house mainly which have benefited.

That is a glorious record indeed. However it is not by any means all that has to be set down to the credit of co-operative banking. More money in people's pockets, better morals in their character, must necessarily have also meant better trade, a raised standard of living, larger opportunities for leisure, general benefit for the State. However, apart from this, co-operative banking — the *cheville ouvrière* (let us say, "the main driving wheel") of all Co-operation, as the late Léon d'Andrimont has rightly termed it — has powerfully incited to resort to co-operative methods for other purposes than the provision of money only. It has set up Co-operation as a potent machine for

wealth-making and character-raising in all branches of human employment, although not in each to exactly the same extent. The benefit, which in this way it has indirectly caused, can certainly not be reckoned at less value than that which it has produced by direct means.

Co-operative Credit may be said to have a boon in its gift for every several form of Co-operation practised. Such benefit is least observable, perhaps, in the practise of co-operative distribution, the commerce of "Stores," which has proved so fruitful a help to the working classes wherever it has been allowed to strike root. Such effect, unfortunately, is still only little discerned in the United States where, somehow, co-operative distribution has not yet found the place for itself in national economics which in a community so largely composed of humble workers it deserves. Yet even on this ground examination shows the boon to be present, and it is not the fault of banking if the benefit has not been rendered more substantial. The great mass of distributive co-operators have today a little forgotten the rock from which they were hewn and the point from which they started, the work which their predecessors set themselves to do. With marked success has come a different view of things, oblivion of the past, disregard of those for whom the Toad Lane weavers constructed their useful fabric. The work which they set out to do was, to help the poor, to place them, by means of co-operation, economically on an equal footing with the wealthy. Those poor people had no money. But they had custom. Out of that custom they were to manufacture money and so become capitalists. Now that co-opera-

tion has prospered, it has become the peculiar preserve of — these are not my words, but the words of the late General Secretary's of the British Co-operative Union, J. C. Gray — “the well-paid artisans.” The poor are left outside. Were it not for the courageous “Women's Guild” which, with a woman's heart, feels for these people and thinks of them, the poor might be wholly forgotten. Correspondingly the co-operative war-cry now goes forth to a different tune. The cry used to be for “Justice” — equality with the better-to-do. Now it is, in the words (much applauded at the time) of the Chairman of a very recent British Co-operative Congress, for “Supremacy.” The acknowledged aim is no longer to help the poor, but to set up a “Co-operative Commonwealth,” to the rule of which willy nilly every one is to bow. Why are the poor left outside? One reason is that — as the Women's Guild has pointed out — the goods sold have, concurrently with the social and financial uprising of those who buy them, become too pretentious for the poor and are sold in too large minimum quantities to suit their tiny purses. Another reason is that the poor still, as in 1844, have no ready money. The Stores rightly on principle give no credit, but sell only for cash. In practice, indeed this wholesome rule is much disregarded. The want of the poor is to some degree met — very faultily — by allowing shop credit all the same — or they would be totally precluded from purchasing. But shop credit never helps those who are allowed to practise it. It demoralises them and so leads them on to buy what they will not have money to pay for. And it utterly spoils dis-

tributive co-operation. The late G. J. Holyoake — the “grand old man,” as he has been termed, of British Co-operation — has repeatedly pointed out to his fellow co-operators at Congresses and other meetings that what they want to bring the poor in is not shop credit but what he was pleased to call “Mr. Wolff’s banks.” Raising credit at a co-operative bank is a wholly different, a far more businesslike, matter from claiming credit at a shop. So far from discouraging calculation, it compels to it and makes people think beforehand. It produces the same amount of money, but at a cheaper rate, and it does so while bracing the borrower rather than enervating him. And co-operative bank credit could not fail to attract many more adherents to the co-operative cause, most notably to distributive co-operation, which to very poor people is the first stepping stone to a rise in life. For we know that among the poor the most usurious money lending is rife. And, because money is necessary, the moneylenders are thanked for the service which they render at an extortionate price, but which there is no one else to render, high price or low.

Once more, among distributive co-operators the practice is rightly becoming common, after British example, of maintaining a banking department in their Central or Wholesale Society. Such department has in Great Britain proved an excellent institution. It economises societies’ money. It perfects the members in a knowledge of banking. It opens a wider ground for the practice of thrift. And it enables societies to do collectively many things which without it they could

not attempt. That department, however, is co-operative only in the sense of being owned by co-operators. The consequence is that for transmitting money from one place to another and for cashing cheques — most distributive societies bank at the said banking department — that department has to employ the services of other, non-co-operative banks at a commission; in addition to which it has difficulty in realising its very legitimate ambition of becoming a deposit bank for individual co-operators as well as for co-operative societies, so as to gather more money together for the use of the movement. Both objects might be readily attained if there were co-operative banks by the side of the Stores.

Accordingly, although one is bound to subscribe to the dogma that a distributive society should require no credit for itself — which would give it an insecure foundation — one cannot help thinking that even for Co-operative Distribution Co-operative Banking would be a useful ally — let alone that recruits for a movement have to be got hold of by whatever benefit most attracts them. Some folk feel the want of cheap household articles most keenly; others the want of co-operative workshops; others again the want of ready money. All these services, meeting various wants, really spring from the same root and supplement one another.

Industrial Co-operative Production, so one would suppose at first blush, must be the chief gainer by co-operative banking. It certainly gains by it, and not a little. But not by any means as much as one would be

tempted to conclude at first suggestion. The reason is that productive societies as a rule are not in a position to offer quite the security which a co-operative bank would have to require, and that they want their money for longer than the co-operative bank could afford to part with it. The backwardness of co-operative banks in respect of making advances to productive societies has now and then been made a matter of complaint. Productive co-operators contend that "co-operative spirit" ought to lead co-operative banks to lend even beyond their ordinary limits of time and security in the interest of "the cause." Some few have done so, in spite of difficulties, in the best class of cases. However a co-operative bank is under a necessity, more than any other, to keep its funds liquid and to study safety. Even capitalist banks with public money in their coffers experience difficulties in meeting productive societies' wants. That is at the present time made a complaint against the newly started banking institution at Rome, which was expressly formed to assist co-operative productive societies, but finds that a large proportion of their claims would, if allowed, lead it into danger and so is driven to refuse them. Well conceived productive societies, appealing to common interest and promising success — down to, even the poorly equipped navvies' societies in Italy in their earlier stages, when their possessions really amounted to practically nothing at all — have not generally wanted for borrowed money on this score. But it is as a rule private capitalists who have provided such, rather from interest in the cause than as an ideal investment. And alike in Italy,

as has been shown, and in France, productive societies have been referred for loans to specially organised joint stock banks — that in France being the property of the productive societies themselves (with a legacy of \$100,000 left by a philanthropist and money subscribed by capitalist well-wishers; the share capital now stands at more than \$200,000) — that in Italy being endowed with \$1,600,000 of public money.

On the other hand Co-operation in Agriculture — the crying want at the present time in most countries — may in general be said to owe its very origin and existence to Co-operative Banking. This is certainly, and very markedly, the case in Germany, in which country co-operation in agriculture is now the most fully developed and has attained the most imposing proportions. Prior to the organisation of co-operative banking, there was no co-operation in agriculture to be thought of in Germany. The Prussian Ministry of Agriculture in 1871 betokened its interest in the matter by printing a short article from my pen reviewing our early beginnings in England as an intended incentive to imitation. But that had no effect whatever. Once Raiffeisen banks had — thanks in part to the examination of a highly competent Royal Commission, which issued a most favourable Report in 1875 — established their reputation, the portal of success seemed widely opened to such Co-operation, and Agriculture rushed violently in. Co-operation in Agriculture became the farmers' favourite study. The command of money had planed the way. It is on this point that the specific advantage of the Raiffeisen system became par-

ticularly apparent. The basis of its credit, in contradistinction to other systems, is not the temporary possession of withdrawable deposits, but the mortgaging of a permanent, little changing, asset, to wit, the unlimited liability of all members, upon which security funds may be raised at any time, to be lent out for long periods, ten years and more. The security is likely always appreciably to exceed the amount raised upon it. Only by such means could, to state but one instance, that valuable service have been rendered to co-operative dairying, of providing the money for starting the organisation with its modern installation, the repayment of the loan raised for such purpose being made out of the proceeds, at so much for every gallon of milk used. A bank dependent upon short credit might have done much else that was available; but it could not have done that. The same comment applies to electric installations and many other things. But such direct money utility apart, Co-operative Credit serves very visibly and powerfully as a stimulus, and a potent one too, by reason of its sharpening the wits of those who practise it — which it does to a larger extent than any other form of Co-operation — and accustoming men to co-operation. Co-operation learnt in credit is applicable to any other form. If you want to see the maximum use made of co-operative methods in aid of Agriculture, you will have to go where it is based upon credit. Denmark is an intensely co-operative country — on the side of Agriculture. However the forms in which it practises agricultural co-operation are comparatively few. It has no co-operative credit — except for mortgages.

And it probably wants none. It has, as its spokesman, M. Nielssen, explains in an official publication contributed by his Government to the Brussels International Agricultural Congress of 1910, taken up the various forms that it actually practises, just as necessity pushed it to them — dairying, when Prince Bismarck closed the accustomed German market against Danish corn and thereby compelled the Danes to take to pasturing and dairying; bacon-curing when Prince Bismarck's successor once more barred the way, for Danish pork, into Germany. In the Netherlands, likewise, the agricultural co-operative movement is independent of co-operative credit, which has only come in, after it, as an offshoot from Belgium. But there, once more, agricultural productive co-operation has remained confined, practically, to the one form of dairying, in which, together with the rearing of cattle, so intimately connected with it, it has been carried to a high degree of development. It need not be explained that cattle raising and dairying are the national agricultural industries of the Netherlands, to which it is no more than natural that methods which had been observed to answer exceedingly well elsewhere should have been applied. In Germany, on the other hand, under the stimulus of banking, farmers deliberately set themselves a-thinking in what new ways Co-operation might be impressed into service to improve their position. Inquiry was let loose, and all the occupied ground was carefully reconnoitred. That led to rather bold experimenting, which in some instances resulted in loss — more particularly when the Government tried to help by provid-

ing public funds. That, so it is now frankly admitted, made people hopelessly reckless in outlay and schemes. They did not count the cost of things, nor calculate returns. Thus it was with respect to co-operative granaries, which were to emulate American "elevators" organised for rather a different purpose, namely to fight "rings." The Prussian Government granted five million marks towards this, of which by far the greater portion turned out to have been simply wasted. The result was nil — or rather less than nil, because it gave co-operative granaries a bad name. Thus it was in Austria in respect to vinegrowers' societies, for the co-operative manufacture and sale of wine. Under such employment Government money likewise came to melt away into nothing. The failure of the German speculation in nitrate deposits has already been noticed. But after these losses, considerable as they were, after all a balance of gain remained. If "cornhouses" were not advantageously to be "run" on the grandiose scale originally contemplated, it was found that, in some countries at any rate, they might be very usefully turned to account in a less pretentious but more businesslike manner. Treated in this way they serve very well with the help of the banks, to equalize the price of corn; they enable the farmer to raise money at the time when he wants it most, without having to throw away his chief produce for a song; and they have already contributed to unifying the product, causing grain of one particular sort, and that the best suited to the district, to be cultivated by members in the area governed by one chief dépôt. Thus grain growing — and in a

similar way the growing of other produce, fruit, potatoes, beetroot etc. — has been decidedly improved, to the pecuniary advantage of the farmers concerned. The improvement has been particularly marked in the cultivation of tobacco. And there has been a remarkable advance effected in the employment of electric power and light.

It is only a trait of human nature that, once the utility of Co-operation in such application has been made clear, people should have been led to form extravagant hopes of large profits to be netted in a speculative way. For the devil of covetousness is strong within all of us. Experience has shown that it is not in Co-operation to gratify such desire. It will not lend itself to speculation or monopoly or the earning of extravagant gain. But it will secure and steady the market. facilitate sale and to a great extent extinguish the reign of ups and downs.

But it is not only particular productive processes that the command of money raised by credit has suggested, nor yet such easy interlinking of co-operative services as that largely practised in Italy, of a co-operative bank being set up by the side of a supply association, in which bank farmers may obtain credit in the ordinary way, by pledging security, which credit is afterwards assigned to the supply association, so that the farmer is placed in a position practically to buy on credit without any addition to price and without incurring the demoralising effects of shop credit. The supply association can go on selling only for cash. The two transactions are kept wholly apart. The buying bor-

rower knows beforehand to the cent what he will have to pay for his money. And he cannot run up a long account. The bank will see that he redeems his debt.

But in truth after, and by, the introduction of co-operative credit the whole atmosphere of Agriculture becomes changed. There is more *verve*, more "go," more intellectual activity perceptible in it. The power to obtain money for useful purposes acts on the agricultural mind like electric power on machinery and like moisture upon sand. It urges it on and makes it inventive, at the same time that it fertilises it and enables it to bring forth fruit which previously it seemed hopeless to look for. And we may be sure that this is the result of co-operative credit. For we obtain it everywhere where co-operative credit comes to be introduced, and not long after, as a regular sequel — even in India. The awakening of the rayat mind after co-operative credit had become established in his country is something to be studied. He now wants to learn. He wants to learn agriculture, but at the same time to acquire general education. Societies have made their secretaries, as a complement to their secretarial duties, teach members' children reading and writing, etc. Rayats inquire — for the present in an elementary way — into agricultural science. They want to cultivate well, to know how to manure, what perfected machinery to employ. They want to be able to buy that machinery and those useful fertilisers. They urge the authorities to provide the required teaching for them. They themselves have begun to form co-

operative societies for the purposes indicated. The whole outlook has thereby become improved.

It is the same in Europe. Co-operative classes and regular courses of co-operative training under the guidance of co-operative unions have become common. The French *syndicats agricoles* have taken up the teacher's ferule by the side of those useful departmental "Directors of Agriculture" appointed by the Government. In Italy Co-operation has inspired those *cattedre ambulanti* which, "ambulating" from place to place, teach the backward rustic how to turn his scamped old-fashioned calling into a scientific and profitable pursuit and provide him with the means for doing so. For their local teachers are also their agents for the sale of recommended machinery and the like, and their amanuenses, to show the peasants how to use these things.

The remarkable development which has taken place in German agriculture within the last generation is distinctly an outcome from co-operative credit. In co-operative credit, in the co-operative organisation of agriculture, and in rapid agricultural progress Germany undoubtedly takes the palm of countries. Fifty years ago its agriculture was undeveloped and backward. England and Scotland were gladly, and reverently, accepted by it as its school masters, from whom to learn, sometimes in a purely mechanical way, since whatever was done in England or Scotland was reckoned to be indubitably good. To-day German agriculture considers British backward. That is in some

very important respects an utter mistake; for the critics fail to appreciate the very substantial differences prevailing between circumstances in one country and the other. But it shows that under the stimulus of Co-operation, formerly studying to follow others, German agriculturists have long since learnt to think for themselves, to work out their own schemes, suited to their own conditions. In respect of adaptability, of suiting cultivation, whether rotational or single cropping, to varying climates, surroundings and circumstances generally, they probably stand topmost among nations. Their land brings forth by quarters where formerly it used to produce bushels. And were it not for their land system, with its pretension to keep up worn-out feudal institutions, "to supply the army with officers"—of the Zabern sort—and the Throne with a "loyal" bodyguard, and for the systematised temptation offered to run hopelessly into debt by mortgaging the land, simply "to keep up appearances," under an agricultural aspect the position of German landowners would be as good as any to be met with on the globe.

Progress has not been equally marked either in France or in Italy. But it is there. Twenty-three years ago, when exploring the rich Lauragais, the original "Cocaigne" of imaginative fancy, a storehouse of fertility shone upon by a stimulating sun, I ventured apologetically to suggest to the departmental director there: "But your cultivation is rather backward here." "Oh," replied he, "we still live in the age of the old Roman plough." He could not say that now. The rich lowlands of Lombardy, with their masterful irriga-

tion and their nine or ten cuts of grass per annum, had not much to learn from Co-operation. But elsewhere in Italy Co-operation has proved of distinct value, and under its sway Italy, which has vainly laboured to vie with England and Belgium as an industrial country, now stands in a good way of recovering its ancient reputation of the time when the Campagna, bare and feverbreeding at present, was the smiling and peopled granary of its country, and the now scorched plain of the South brought forth between the still standing, shady and rain attracting forests, rich harvests of wheat. The effect of this is distinctly to be seen in the rather greedy way in which co-operators of the peasant and rural labourers' class cry out for "credit," even where to give credit would be a rather risky proceeding. But at any rate they have learnt to understand and appreciate the value of credit as a productive and wealth-bringing agent. Even Denmark has not cut itself off from co-operative credit as much as might be judged. There are many in that country who hold that co-operative credit would prove useful there. And under a former Ministry, not long ago, an inquiry was ordered by Parliament, and held, and five million Danish crowns were actually voted to finance a beginning. A change of Ministry upset the scheme. The advance in agriculture made in the erstwhile principalities, now kingdoms, of the Balkan peninsula stands a credit to the same account. And even in Egypt the introduction of credit, non-co-operative as it was, inspired to the fellaheen thoughts of co-operative organisation for selling their cotton as well as for securing

agricultural requisites, the demand for which appears to have outgrown the capacities of the National Agricultural Society, useful institution that it is. These thoughts did not lead to successful practical results, because the co-operative principle was still too little understood. But after the advent of such co-operative régime as we are now promised, we may look for better things.

The effect, indeed, has been pretty general. And to whoever knows what co-operative credit means, it must appear perfectly natural. A blunted mind cannot think any more than a blunted blade can cut. Sharpen it, as co-operative credit does, providing the prospect of thought being turned into profit, with the help of means for using it supplied, and it will do its work. Here is the point. Credit supplies the means for turning ideas into facts. The man who finds it placed within his reach is like the proverbial soldier of Napoleon's army, who did not fight without prospect, but had "the marshal's baton" bound up in his knapsack.

CHAPTER X

LEGISLATION

IF there are to be co-operative banks, evidently there will have to be laws authorising and regulating their formation and procedure. There are none such at present in the United States. For what few State Acts exist are not at all suitable for co-operative banking of any description.

There are cases, indeed, in which a law may, at any rate for a time, be dispensed with. The history of British Friendly societies, Co-operative societies, Trade unions and Building societies furnishes an example of this. It tells how such associations may grow up without a law, even in the teeth of violent opposition in legislative quarters and official frowns, and by their success practically compel Parliament to legislate for them — perhaps all the more suitably for having delayed action until the object of such had become thoroughly understood by the light of experience. And, in view of such successes, when, after having primed himself by study of my book “People’s Banks” and by correspondence with sundry other European co-operators to whom I had referred him, my friend Mr. Alphonse Desjardins, in despair at the absence of a suitable Act in the Dominion of Canada, and its provinces, asked my advice, how to proceed with the formation of thrift societies, really intended to become banks, in his

country, I very naturally recommended him to do as our co-operators had done in Great Britain and proceed without a law, trusting for the time to the honesty and good faith of his converts. That advice was acted upon and, so far as the Province of Quebec is concerned, it has answered its purpose — not, indeed, to the full, because the law eventually passed is faulty in some important particulars; but still sufficient for its purpose in this respect that it places the societies and their creditors under legal protection. It still prohibits the taking of deposits from non-members. It thereby damagingly restricts its sphere of action and makes it rather a humble loan society than a bank. But it will, please God, prove the stepping stone to something more perfect.

The United States are not at the present time quite as badly off as Canada was in 1900. They indeed have no genuine co-operative laws. There are some, nominally, in a limited number of States — I believe there are sixteen. Those laws are cumbrous and unsuitable in the extreme, and very clearly demonstrate how widely the American conception of Co-operation still differs from the British and generally the European. There is the unmistakable stamp of the joint stock company upon them and official suspicion of intended wrongdoing surrounds them with barbed wire entanglements. Societies are supposed to work “for profit”—whereas our European societies distinctly work “for economy” and therefore, in Great Britain at all events, escape taxation. There is no “profit” in them. The American societies are to be formed for

a certain fixed period, with a fixed "capital stock," to be named beforehand, which stock is to be "subscribed for" within a certain time in shares of not less than \$50 nor more than \$2,000, of which shares each member may hold only one. The society is to constitute a "corporation." It is to be burdened with an official hierarchy of "a President, a Vice-President, a Secretary and a Treasurer" and more "Directors." And everybody is to be sworn and made to find security. Those shares may be "sold to any person," and in some cases they *must* be offered to the public. And there is to be a General Meeting "at least once a month." ¹

Now in Europe we particularly insist that a co-operative society, in contradistinction to a joint stock company, is a combination, not of capitals but of persons. Nobody is sworn or required by law to find security. The administering body required by law is a simple "Committee of Management." Shares are small, as a rule of \$5, and members may at their pleasure take, one after another, at any time as many as they like up to the value of \$1,000. But such shares must *not* be sold "to any person" but can only be transferred to persons previously accepted by the Committee as members. At the same time there is no limit to the share capital of the society; it may be increased at pleasure. In

¹ I am indebted for such knowledge as I possess on the matter to the kindness of the acting Commissioner of Labor, who, in September, 1912, was good enough to send me a number of the Bulletin of the Board of Labor quoting the law for Illinois, as given in the "Revised Statutes of 1905," with the explanation added that "the essential features (of all these laws) are so similar that no summary or digest is necessary."

Italy I have known a co-operative credit society of considerable merit which had, and still has, shares of only \$7. However many shares a man may hold, he will still be entitled to only one vote. The members meet once a year in general meeting, rarely oftener. That would be in "special meeting" for some special and exceptional purpose. Evidently, since the American Acts prescribe that the shareholders shall provide all the "labour" and must not employ auxiliaries, the laws are intended to apply only to "productive societies," leaving all the others — distributive, supply, credit, agricultural, etc. — out in the cold. That explains why those hosts of Elevators, Telephone, Insurance, Dairying and Irrigation, Fruit and Sale societies, and so on, although named "Co-operative," will not fit into our European notions of co-operative societies. They are working "for profit." They are "mutual" societies, comparable to syndicates or rings.

Since a few years there are in one or two States — three, so far as I have been able to learn, to wit, Massachusetts, New York and Texas — special laws for "Credit Unions," to which "Credit Unions" they set a very narrow ambition. They altogether preclude them from becoming co-operative banks. These new Acts will be briefly discussed a little further on. But it may be well first to look and see what has been done in the matter elsewhere.

Now, in view of very marked differences prevailing — of circumstances, habits and usages — precedents taken from other countries can obviously possess only a limited value as guidemarks to go by. However a cer-

tain value they do undoubtedly possess. It cannot, therefore, be amiss briefly to take stock of what legislation, that has proved successful, has been passed elsewhere. In the majority of foreign countries legislation on co-operative credit is still in a rather confused condition, which shows that, what between undue timidity and distrust on one side, and deficient understanding as to what should be asked for, on the other, the Gordian knot has not yet been fully cut. In France there is a kind of chaos, to remedy which the revision of existing laws is now proposed. Neither in Belgium nor in Italy is the condition of things quite satisfactory. In Belgium co-operative societies are simply "commercial" societies. But there are three good laws — defective only on minor points — that is, in Germany, in Austria and in the United Kingdom. The laws in all these last named three countries have proved satisfactory in general and those who work under them are pleased with them. The reason of their success evidently is that they lay down broad principles, but do not enter into minute details, such as the Latin proverb says that the law should ignore, and such as the authors of the Acts of Massachusetts, New York and Texas appear to have delighted to revel in. To employ a historic phrase of the late Archbishop of Canterbury — "we trust the people" — they had trust in members of co-operative societies (being aware that their own interest requires good practice on their part), abstaining therefore from tying their hands — save in one thing: their accounts must be thoroughly verified and there must be searching control, so that there can be no danger of any one

being misled by false statements. It is an entire mistake, engendered by ignorant prejudice, to go into minutiae, as the three American Acts named and the draft bills brought in as a sequel to the European inquiry by the "American Commission" do. That only unnecessarily fetters the hands which are expected to work and spoils what it is intended to improve. The British Acts — there are really two — are the most general. But they have been found sufficient — in one case fully, in the other at any rate fairly — even for banking, for which they were not by any means intended. The Industrial and Provident Societies Act of 1893 — recently supplemented by that of 1913 — which makes limitation of liability obligatory, contemplates banking to this extent, that it prohibits "banking" in societies with withdrawable shares — which is no serious hindrance. Many people indeed prefer to have withdrawable shares, because they wish to be able to get out of a society into which they have first got. It disposes people more readily to go in, if they know that they can go out again. For Raiffeisen banks, however, we *must* have unlimited liability. Accordingly we have had to register such societies under the Friendly Societies Act of 1896, which is the only Act at all suitable for the purpose, as permitting unlimited liability, but which was designed for societies of a totally different order. It did not at first permit the taking of deposits beyond an entirely inadequate proportion. But that has been remedied by the Societies Borrowing Powers Act of 1898, brought in for that very purpose by Sir Horace Plunkett, when in

Parliament, which Act gives societies full powers to borrow, from non-members as well as from members, so long as they do not work "for profit," that is, do not "pay dividends, or bonus, make all money lent applicable only to such purposes as the Society or the Committee of Management may approve," and make their reserve fund indivisible. Societies formed under the Industrial and Provident Societies Act have full borrowing powers in any case. Under that Act it is shareholding powers which are limited, lest one man or a few men should acquire excessive money power. Members or non-members alike may deposit or lend to the Society as much as ever they please. Unquestionably it would be more convenient if there were one Act only for both classes of banks, as is the case in Germany and Austria. But that appears at present to be impracticable owing to the strong objection which British co-operative societies quite justifiably entertain against permitting unlimited liability under a law which may be made applicable to societies of their own class. Under either Act the accounts of societies have to be submitted annually to the Chief Registrar of Friendly Societies, whose business it is to see that all provisions of the law are fully complied with and that the figures, being previously audited by competent men, are true to facts. He does not go beyond that. He may cancel the register of a society which acts illegally or which remains for any length of time insolvent. But he does not interfere in the management.

The German law is probably the best which at present exists for this particular matter. The wide extension

of co-operative banking in Germany has pressed the subject upon the attention of legislators. To a certain — desirable — extent it enters into questions of organisation. Whereas the British Act only requires that there should be a “Committee of Management” properly constituted, the German Act — which in its main features has served as a prototype for the Austrian — lays it down that there must be a Committee (*Vorstand*) as executive authority, and also a Council of Supervision (*Aufsichtsrath*), on neither of which bodies may members of the other body sit. The Council of Supervision, as already explained, corresponds in its functions and attributes to the Board of Directors in a Joint Stock Company, the Committee to the Managing Director. Therefore, under the General Meeting, which is paramount in all things, the Council of Supervision is supreme. No number is prescribed for the Committee. But, since every transaction requires the signatures of two members — who have eventually jointly to bear the responsibility — and who are expected to check one another — there must be at least two. The Act also requires that, apart from the drawing up of the balance sheet, and the annual audit, there shall — as already shown — be an inspection at least once every two years, by an officer of an authorised “Union,” or else by an officer appointed by the Government. It — wisely — prohibits advances to be made on the security of shares in the particular society, and it fixes the term during which the outgoing member shall remain liable in respect of his shares, at two years.

Here we have everything that is essential fully and effectually provided for, without any hampering interference. There are, as observed, minor defects in the Act. But in general it has given full satisfaction, and under it co-operative banks have flourished. Their own interest, generally speaking, keeps them steady. Wherever they have gone wrong, it has not been because the law was imperfect, but because its precepts had not been observed.

The American Acts thus far passed or proposed are framed upon altogether reverse lines. They go very minutely — prejudicially and hinderingly — into particulars and ignore altogether very important main points. If in any respect they secure the depositor or the creditor, to a much greater extent do they prevent the society from doing what it was intended to do.

To begin with, they most effectually prevent it from becoming a "bank." We must here leave the provisions proposed — and in Wisconsin actually passed — for co-operative mortgage banks out of account. That question is dealt with in a separate chapter. The other class of societies could not under such laws as those here reviewed possibly become "banks." For a bank's business is to collect money from whoever will deposit such, and employ it afterwards in its own way. One of its particular objects is to provide for money so collected — taken from all comers — more fructifying, stimulating and more widely useful employment than commercial banks and savings banks can furnish, directing it into those millions of small productive

channels, out of which springs up, not the wealth of millionaires, but the general wellbeing of the whole nation. It is, in M. d'Andrimont's words, to "democratise" banking. The Massachusetts and New York Acts — of which latter I understand that the Texas Act is little more than a replica — explicitly limit the taking of deposits to members only, thereby, by one fatal clause, condemning the society to the status of a mere thrift or loan society, like a slate club or funding club. This is like giving a man a tool to work with and telling him that, for fear of mishap, he must not on any account use it. Without deposits coming in from the outside you can never expect to get together anything like the sums of money that you want. The men who combine in such a society combine because they *want* money. They want to tap the market for it with their co-operative security, just as the capitalist taps it with his more pretentious, but in no wise inherently more valuable, capitalist security. The intended transaction is the same; it is only the form of the security offered that is varied. What on earth is the use of offering a man a biscuit when, to keep him alive, he wants a family loaf? Such restrictions as these, apart from disappointing the wish which they profess to satisfy, defeat themselves. Nobody obliges outsiders to deposit with the society. So long as the society does not appear to them to be worth trusting they will as a matter of course abstain from doing so and go for depositing to better known institutions. They do not want in the United States to be begrandmothered in their money transactions. It is the soci-

ety's own interest to prove to them that it is safe. And the best policy is to constrain the society to do such work for itself. That being done, it is downright foolish for the Legislature to want to intervene and forbid deposits — more particularly seeing what very useful purposes money so deposited is pretty certain to be turned to, which it could never reach through other channels. Co-operative banking is to-day no longer in the experimental stage, in which it was sixty years ago. It has passed through its trial and has stood the test, and shown what stuff it is made of. If you would study safety, your object will be far better served by putting the societies on their best behaviour, so as to make them gain the confidence of the multitude, than by tying their hands so as to weaken their sense of responsibility and poking your nose, untrained as it must be for this purpose, into their affairs.

There is more that is faulty. For a European it is difficult to understand why there should be all that swearing in of officers, and why so many "surety bonds" should be needed, nor why membership should be so jealously limited to citizens of the particular state, even as a nucleus; and why, furthermore, members of the governing bodies should be precluded from borrowing "either directly or indirectly" — seeing that in all probability they joined the society for the very purpose of becoming qualified to borrow.

The functions of the various committees also appear to have been confused, in some cases turned topsy turvy, presumably from a want of understanding what they should be, coupled with a nervous fear lest there

should, in Lord Byron's words, "be harm in whatever you, she, he or it may be about." How on earth is a movement like that of co-operative banking to prosper with its wings clipped and its hands and feet tied in this fashion? If you are so very much afraid of having co-operative banks go wrong, you had very much better not allow them at all. They cannot prosper in such bondage. All these minute intended safeguards recall to my mind a story that Mr. Chamberlain told me, when he was at the Board of Trade, at the time of the dynamite scare, about a mysterious "metal cylinder" delivered at his office in London, of which every one in the office in his turn — whose office it would have been to open it, from his private secretary downward — fought nervously shy. It looked so very uncanny — surely it must contain dynamite! As a last resource the police were called in and, being likewise solicitous for their own life and limbs, they packed it carefully, like a baby that must not be awakened, into a barge and floated it cautiously down the Thames to Woolwich, where it was loaded into a cannon and fired off over Plumstead Marshes — when nothing happened. Next morning's mail brought a letter of advice from the Sheffield Town Council stating that a sample of the water from their new waterworks had been sent up in a "metal cylinder" for the Board to take note of. Now, are American Legislatures going to be afraid of what figuratively speaking is no more dangerous than that Sheffield water?

From what one hears it is Italians, only temporarily settled in the United States, and therefore aliens, who,

being familiar with co-operative banking from their own home, and not troubling much about American laws, have thus far done best over their little co-operative banks. But could one not trust native Americans to do as well as these immigrants?

For the shortcomings of the Massachusetts Act there is an acceptable excuse. That Act was, as Mr. Pierre Jay, its author, has explained to me, drafted when public opinion was still quite unprepared for legislation on the subject and, to propitiate the Legislature, it had to be put into a shape to resemble the measures in force for the well-known Building and Loan Societies. We are familiar with similar cases in England. They probably occur in every country. Bills are put forward, not as being perfect, but "to pass." Proposals of mine regarding a consolidation of our two Acts for the very same purpose have been benevolently rejected by a Public Department on the very ground that, although they would doubtless serve the proposed purpose best, they could not be expected successfully to run the gauntlet of unreasonable opposition to anything new that members of Parliament love to engage in. However the New York Act was passed four years later, when public opinion must have been to some extent familiarised with the subject. Perhaps I may be permitted to quote here my criticism in the words of a memorandum which at the request of President Kenyon L. Butterfield, of Amherst (who acted as chairman at the meetings in Europe of the "American Commission") I drew up for the use of that gentleman, some time ago, when to my alarm I learnt that there was a

probability of the Commission recommending the New York Act as a model for imitation.

"I cannot think that the New York Act on Credit Unions is a suitable Act to accept as a model for further legislation. More in particular is it wholly unsuitable for banks of the Raiffeisen type, the formation of which it appears intended to promote, but which could not possibly be formed under this Act. The entire conception underlying the Act seems wrong. Its authors appear to have failed to realise that they were legislating for voluntary societies of persons combining because they are weak in capital, persons bound by the same interest, and restricted to doing business solely among themselves, and to have been guided by apprehensions of the Act being perverted to improper uses by greedy capitalists seeking to exploit other people.

"The mere catalogue of oaths required from office bearers and others, and of pains and penalties, proceedings by the Attorney General, etc., kept in store, would astonish a European co-operator. There is no need for such, as indeed for most of the voluminous State interference here provided for. Government interference should be kept out as much as possible, because its unfailing tendency is distinctly to weaken members' sense of responsibility, which in fact is the pillar upon which the entire fabric must rest. Credit cannot possibly be dealt with in such a mechanical, rule-of-thumb sort of way. Every application for it requires to be considered on its own intrinsic merits. The State is right in adopting precautions assuring that legislative provisions will be complied with and that the figures published as indicating the financial position of the Union are in accordance with fact. But beyond such point all interference on its part, however well intended, is bound to be hurtful. Members of the Credit Union are the persons most interested in the safety of their union, and under proper rules they have ample power for keeping it so. The legislator's aim should be to stimulate and quicken such interest. Also, under the surveillance of the Superintendent of Banks, the procedure provided for in the event of Credit Unions landing themselves in difficulties appears unduly severe. Credit Unions

should not, of course, get to such a point. And it rather must be their own object to avoid that. But, after all, it is their own money which is at stake. There are not a few cases in Europe of co-operative banks being got into difficulties and getting out again by their own efforts, with the help (involving no ultimate loss) of other co-operative banks.

“Once interference becomes unavoidable, on the other hand, we should, in the old world, adopt prompter methods than those here prescribed, viz., an action by the Attorney General. Our Registrar of Friendly Societies has full powers, which he has never been known to abuse.

“There are some points on which, with all its excessive severity already commented upon, the New York Act fails to provide adequately for safety. Thus it leaves the Union to fix the limits of its own ‘activity’—it is true, subject to the approval of the Superintendent of Banks. But that is not necessarily a sufficient safeguard. We have in Europe found quite mistaken approvals given. Some limits should be drawn in the Act. Once more, whereas the Act deals with quite needless minuteness with the rate of interest to be allowed on deposits or charged on loans, it leaves two main points, upon which everything turns—that is, the limitation of dividend on capital and the limitation of capital (shares) itself—unprovided for. The concern being co-operative, it is essential that dividend on share capital should be limited or, in spite of all pains and penalties threatened, it may degenerate into a profit-seeking organisation. The excess surplus belongs to those who use the Credit Union, that is, the borrowers—among whom, after due allowance to reserve, it ought to be distributed as a dividend upon business. Again, the Act says nothing about a limitation of the maximum of ‘interest’—that is, holding in shares—which a member may acquire in the concern. That, once more, is a dangerous omission. For without such provision, in spite of the ‘one man, one vote,’ the Union may become the property of one man or a few men, and turned into a profit-seeking concern. In all other countries the limit drawn is \$1,000. There is no fault to be found with the maximum limit fixed for the share, viz., \$25. Only, it is a serious mistake that shares are to all appearance to be dealt with as a marketable com-

modity, with a 'face value,' and accordingly presumably also a 'market value,' to be sold to any bidder, indeed to be offered for sale by the Union in the case of defaulting members; and that no liability is made to attach to outgoing members in respect of their shares. The share is, in truth, or ought to be, anything but a marketable commodity. It ought not to be allotted except with the consent of the Board. A Union all shares and no money would be an abortion. Our British Act designedly makes shares not withdrawable, but transferable, subject to the consent of the Committee. Shares to be put an end to may, of course, be 'cancelled.' But that is another matter. Foreign co-operative banks adopt other safeguards as, for instance, to make the summoning of a General Meeting compulsory whenever a certain number of shares come to be withdrawn, to determine whether the bank is to go on with its reduced capital, or to wind up at once. And there is no Act on this subject which does not make outgoing members liable, in consequence, for some definite period, mostly two years.

"Another regrettable feature is that the Act omits to rule out dangerous investments of Union funds, although quite unduly unkind in cutting down legitimate investments to very poorly paying securities—which, in the case of the reserve fund, as will still be shown, constitutes a real hardship. The Union might, on the other hand, be allowed wider latitude in investments; but it should be forbidden to immobilise its cash and to invest it in shares of other societies, which might involve it in liabilities not to be foreseen. The sole exception to this is that it should be allowed, under certain provisions, to take shares in a Central Bank, to become a clearing house for Credit Unions and a link with the money market.

"As regards Government regulations the Act might, on another point, deal a little more generously with Credit Unions, namely in the matter of charges, fees, costs and expenses. I am not in possession of the other Acts referred to, which regulate such outgoings. But the outgoings appear fixed upon the joint stock company scale. It is a universal practice to allow co-operative societies remissions or reductions.

"The organisation prescribed in the New York Act con-

fuses functions and thereby acts further in diminution of the required sense of responsibility, which is the lifeblood of the whole institution. The accepted principle is that there should be a fully responsible Committee—in the Act called a Board of Directors—to administer all the affairs of the Society. The Act indeed provides for a Board, but it entrusts half its proper functions to another body which, so far from being under its control, in truth controls the Board—which arrangement cannot fail to weaken responsibility. The Act lays it down that the Board shall be composed of at least five members, none of whom are to draw “compensation” or salary—except the “elected officers,” of whom out of the five, there are to be four, constituting ex officio the executive committee, and leaving only one poor member to act as ‘General Committee’—in truth as the ornamental ‘fifth wheel to the car.’ In fixing the number at five and forbidding “compensation” the authors of the Act appear to have aimed at assimilating the Credit Unions to Raiffeisen banks, in respect of which both such provisions are adopted. However the Credit Union kept in view cannot in truth be anything like a Raiffeisen bank. It is based upon shares and it is evident, although this is not explicitly stated, that such shares shall involve only strictly limited liability. The number of five is not generally adopted, nor is there such a hierarchy of officers prescribed as in the New York Act, including the Secretary—who had much the best not be a member of the Committee, but an officer of the Union. In German credit banks there are three directors—legally there might be only two—with distinct functions nominally attaching to each of them, but practically all doing the same thing. The signatures of two of them, who are made to bear the responsibility for this act, are requisite to every document issued on behalf of the Committee. These men, devoting as a rule all their time to this work, are paid. But that is not necessary. In Italy there are three *sindaci*, elected from out of the General Committee, which acts practically as supervising Council, to perform the same work as a German Committee, but without salary. One of them is required to be present whenever business is transacted and to pronounce his fiat to every act. To provide for emergencies,

there are two 'substitutes,' to replace any of the three who may be prevented from attending. The regulation that the Board should meet "as often as is necessary" seems just a little vague.

"In one respect the Board is in the New York Act given excessive power, in another too little. It is quite right that, as a rule, the Committee or Board should fix the two rates of interest. But, as the Act stands the Board might defy the General Meeting, thinking otherwise, on the ground of the letter of the Act. The General Meeting ought to be made supreme in all things. It should be for the 'Credit Union' to fix those rates of interest, the General Meeting in its turn committing the work to the Board, as acting under its own authority. And it should be for the General Meeting, not the Board, to fix the maximum of borrowing to be permitted to any one member. As regards the two rates of interest, the precise limits laid down in the Act are out of place. The Union has to cut its coat according to its cloth. Should it overcharge at any point, the excess would come back to the member in dividend upon business. But members may be trusted not to permit excessive charges.

However, on the other hand, the Act takes away from the Board all discretion with regard to loans, and makes it utterly dependent upon the Credit Committee, merely paying out money as the Credit Committee may direct. There is a misconception here about the true office of the Credit Committee. The Credit Committee is intended to be a help to the Board, and not its master. It is from time to time to draw up a *castelletto*, to be kept strictly private, appraising every member, within a safe limit, as to what Schulze-Delitzsch called his 'capacity for credit.' The measure of his 'capacity for credit' is not necessarily the same as that of what Schulze-Delitzsch distinguished as his 'credit-worthiness,' that is, his title to credit, not purely on the ground of his actual possessions—which latter may, moreover, increase or else decline between one appraisal and the next. The Board is permanently in office and in a position to appreciate changes occurring. The *castelletto* (*Creditliste*) is, in general, intended as an authorisation to the executive officer to make certain advances, if asked for, without further in-

quiry, if he should know nothing to invalidate it or to render it doubtful. It does not represent the maximum to which the Credit Union might go, provided that security were found to be sufficient. The Credit Committee also would be a very inconvenient body to make responsible for loans injudiciously granted. The Board is the constitutional administrative authority and its power and responsibility may be weakened by the introduction of a dualism which can only be to the detriment of the Union.

“Under such circumstances there is no earthly reason why the Supervisory Council should be authorised to interfere with the Credit Committee at all or to suspend it. The office of that Committee is purely consultative. But the Supervising Council, which represents the members generally, as between one General Meeting and another, ought to have power, on an emergency arising, to suspend the Board of Directors, on condition of referring the case at the earliest moment possible, to a General Meeting. That is a rule of universal application.

“As regards the Board’s dealing with Union funds, I do not like what is likely to be interpreted as a general authorisation to lend without security up to \$50. You may lose a good deal of money in fifty dollar loans. I myself am in favour of asking for security — as a general rule — for every loan, were it only for the sake of accustoming people to the practice. However, very much money is, and legitimately may be, loaned to members in larger sums, altogether without security. That is a question, under the General Meeting (to which the Supervisory Council will report for the Board).

“Once more, the condition laid down that in respect of every loan applied for the intended object should be stated and adhered to, is out of place in a society based upon shares and limited liability. That provision has evidently been taken from the Raiffeisen rules. However, it does not necessarily apply elsewhere. And how are you to do if members ask for a cash credit to run on from year to year? I distinctly hope that in Credit Unions as they are here proposed that will become a common practice. In Raiffeisen societies it would be improper. A direction should be given

to the Board to act in every instance according to circumstances.

"It seems harsh to deprive members both of the Board and of the Council of the right to borrow. Presumably they joined the Union *in order* to be able to borrow. And if you debar them that right you run the risk of depriving the Union of useful officers. It cannot be denied that this is a crucial point in the organisation of Credit Unions, a weak point in their armour. However, some method to overcome the difficulty in practice should be found. In large co-operative banks there is a special committee appointed to deal exclusively with these cases. Elsewhere Board and Council are made to consider them in common, of course in the absence of the applicant.

"Proceeding further, the rules laid down for the employment of society money are at once too hampering and too loose. The society must endeavour to make both ends meet. It is unfair to cripple it unduly in the power of investment.

"Once more, the safeguards adopted should consist less in such mechanical rules as the Act lays down, than in responsibility quickened. On the other hand, Credit Unions should not be encouraged to immobilise funds, as they are often tempted to do. That is what has brought more societies to grief than almost any other cause. And they should, as already shown, not be permitted to invest in shares of other societies, so as to pledge their liability beyond their own ken and control.

"The provisions laid down, as already stated, appear more particularly injudicious in respect of the investment of reserve funds. Reserve should be steadily studied and I consider the discretion given for reducing the annual quota (rightly beginning with 25 per cent. of the surplus) as too wide. There should always be something carried to reserve, because there is no telling what wants may arise. The figure of the Union's liabilities, laid down as maximum, although sound in principle, is likely to prove inconvenient in practice. However, tying down the reserve fund to certain securities only which pay a low rate of interest seems unbusinesslike. Why should the Union be made to borrow money at 6 or 7 per cent., when it has money of its own on which

it may net only $2\frac{1}{2}$ per cent? It would be more to the purpose to make the reserve inalienable and indivisible, so as to prevent greedy members from wrecking the Union for the sake of the spoils.

"Looking now at the other side of the balance sheet, the Act quite unduly limits the Union in respect alike of borrowing and of the taking of deposits. The two are practically the same thing. The limit had much the best be left to the Union itself, under the checking influence of its responsibility. Certainly one-fifth of the assets allowable only for loan capital is a mockery. Our British Friendly Societies Act (under which we have to form our humble little Raiffeisen societies, for the sake of unlimited liability) allows three-fourths, and that is quite insufficient. So Parliament in 1898 readily extended our powers, without setting a limit. As a rule five times the assets (share capital and reserve) is found a very safe limit, and there are perfectly solvent societies which borrow a great deal more. The object of the Union is, like the object of a bank, to attract loan capital from outside, employing its own capital less as a working fund than as what Léon Say correctly called a 'capital of guarantee.'

"And the taking of deposits should be extended to such from non-members. Members unite, not because they want a new receptacle for their excessive money, but because they have little money and want to use other people's. Beyond this, their entire *raison d'être* as a thrift institution for public use is destroyed by a restriction to members. Put them on their good behaviour! Compel them to make their security accepted by the public by careful administration and publicity, and you will find both their safety and their utility very materially increased.

"Coming now to the Supervisory Council, which is an indispensable institution, I must confess that I should prefer to see the number of its members increased, although there is no fixed principle with regard to this. Nevertheless a larger body speaks and acts with greater authority. The Supervisory Council, so to put it, constitutes the permanent Committee of all the Members, acting for the time as their attorney. Under the General Meeting it should be supreme,

without being allowed to interfere in the regular functions of the Board. It may call the Board to account, point out irregularities in its conduct, in extreme cases suspend it. But it must not weaken its sense of responsibility by snatching the reins from its hands. It is quite out of character to make it, as the Act requires, report to the *Board*. Its Report, reviewing the actions of the Board, must be addressed to the Council's principals, that is, the *Members*. The chairman of the Council should preside *ex officio* — when present — at the General Meetings. Certain intervals should be fixed for its meetings, say, at least once every three months. It is quite allowable to make it audit the Board's accounts. However that is not its main function and had really much better be left to a skilled accountant. Its main action is to review the conduct of business of the Board, inquiring whether the precepts of the law and the resolutions of the members have been observed and if the discretion permitted to the Board has been rightly used; and to report thereon to the General Meeting. A strict Council, going into particulars, makes a good Board. A danger lies contained in the possibility that the Board may, while acting fully within the letter of its authority, stretch points in favour of questionable but forbearingly favoured borrowers. If left to itself kindness may overbalance caution. Once the Board knows that it has a strict Council over it, which will report to the General Meeting, it will have its answer of refusal ready for doubtful applicants.

“Beyond the scrutiny of the Council there should, as time goes on, be periodical inquiry by an inspector authorized by a union of Credit Unions, whose action is bound to add force to the whole class of institutions.

“From what has been said it will be seen that Chap. 582 falls short in many respects of what is desirable in the matter of legislation for Credit Unions. It would be a pity if its faulty provision were made applicable to a wider area. Although a good law will not necessarily make good Credit Unions, it is certain that a faulty law will make bad ones.”

Surely Americans know better than to spoil a good work upon which they are bent, and which may be

made to yield them an immense national benefit, in this very infantile way. Such laws as this could not have enabled Germany to raise those many millions of money annually turned loose for fruitful productive employment, nor M. Luzzatti to say, as he has done, reviewing the work of his *Banche Popolari* in Italy: "There is no one now who, provided that he can make out a good case, cannot obtain credit." Have the thing in such freedom as it requires for beneficial work, not tied up in a bag, like a German baby, or do not have it at all! Provide as stringently as you please for inspection, for verification of figures, for publicity of the society's doings! Fix as severe penalties as you please for wrongdoing! Make liability as constraining as it can be made! But do not overburden the society with a hierarchy of unnecessary officers! Do not take from it the power of raising money which is the very thing for which it was formed! And leave it its liberty of management! It is responsibility, not minute legal precepts, calling for mechanical, in all probability under such circumstances merely formal, compliance, that can put it upon its best behaviour.

Legislation will, so it appears, have to be by States. That means that laws cannot everywhere be alike. But President Taft's was an excellent advice, to get the States to agree among themselves upon some general principles to be adhered to throughout. There is sure to be interstate intercourse. And it is desirable that there should be. So the more legislation throughout the States is cast in one mould, the greater will be the practical convenience resulting.

CHAPTER XI

CONCLUSION

WHAT has been here related — although in no wise exhaustive — must, so one would think, have made it plain that in the shape of Co-operative Credit an economic force of great creative power has been brought on the scene, a force having its magazine well stocked with instruments of signal potency to produce alike economic and moral results. The efficacy of its Midas touch is not confined to one country or one race only. We have seen that it is adaptable to so large a variety of different circumstances that one might almost judge it to be appropriate to any that might arise. It has created additional riches in the busiest and most thriving industrial centres and in the most fertile agricultural districts of Central Germany as well as on the barren heights of the Westerwald, in the languishing plains of neglected Italy, in the half desert wilds of Finland. We have seen that it knows how to accommodate itself to the habits of the Teuton, the Gaul, the Turanian, the Mussulman, and the Hindoo. We have observed how it fills the national garner, employs the wage earner, and enables him to turn himself into a self-employer, to his country's good. The bounty which it brings is under circumstances immense. The

boasted "billions" which Prince Bismarck drew into his country from the wealth of France could not, even at the time when they were captured, remotely compare, as has often been explained in Germany, with the far more substantial spoils of Schulze-Delitzsch's and Raiffeisen's peaceful campaign against poverty and backwardness in that same German Empire. Wherever co-operative banks have acquired a firm footing, so it is M. Luzzatti's boast, there is no honest man with a good case who cannot obtain the requisite productive credit. "It is impossible not to acknowledge," so he goes on, "that we have delivered the small folk and the middle classes from crushing usury, that we have assisted industry and commerce and, lastly, that we have helped to cultivate throughout the fruitful tree of thrift on ground which previously appeared absolutely barren"—"Thrift by which," in Mr. Gladstone's weighty words, "self-help for the masses is principally made effective. In them thrift is the symbol and instrument of independence and liberty, indispensable conditions of permanent good."

M. Luzzatti in a moment of forgetfulness says nothing about Agriculture. However it has been shown — and nobody knows this better than M. Luzzatti — that Agriculture has benefited at least as much as Commerce and Industry by the new money-raising force, and has indeed obtained a new lease of life and prosperity, by means of joint action, in most of its ministrations, from Co-operative Credit. The broad acres of Germany, of Italy, of Austria and France, the smiling vineyards and gay gardens of the Continent, the newly raised

dairies, electric power works and plenty more productive and transforming institutions bear eloquent testimony to this. The progress of such Credit has been like the advance, over neglected ground, of a beneficent fairy, in whose footprints flowers spring up and from whose hand drop right and left in abundance seeds charged with blessings, producing luscious plants bearing precious fruit. The record of its conquests indeed reads, as Mr. E. W. Kemmerer, of Princeton University, writes, "like a fairy tale."

It is impossible to reckon up its gifts, scattered broadcast over a thirsting world in figures. There are no statistics extant, which are at all complete or trustworthy. I raised the question of collecting such at the Congress of the French *Centre Fédératif* at Toulouse in 1893, when an impulsive *chef du cabinet* of the French Minister of Commerce of the time rashly promised performance on behalf of his Government — which, however, soon discovered that the task was beyond its power. While I was at the head of the International Co-operative Alliance, I laboured to obtain the collection of statistics in various countries by the several co-operative unions established there. We tried our hands at a compilation of statistics in 1896. The result was disappointing. We had secured the collaboration of the very best men in all countries concerned, including the heads of national statistical departments. All these men could produce nothing worth presenting, simply because it overtaxed their powers to make bricks without straw. In 1913 I made a fresh independent attempt, the result of which, as of a further attempt in

1914, is embodied in the Yearbook of the German Schulze-Delitzsch Union. But that only contains what I could personally collect. The International Statistical Congress, at its last sitting, held at Munich, gave its attention to the subject and appointed a committee to consider whether it could take charge of the task. It is to be hoped that it may see its way to doing so. For certainly it is desirable that the world should learn what Co-operative Credit does for it. Meanwhile we know that less than a thousand Schulze-Delitzsch banks in Germany lend out annually something like \$750,000,000, or more, raised by credit, but raised in the safest conceivable way, thanks to good organisation and conscientious administration — raised cheaply, for the most part by deposits, resulting from the powerful stimulus given to thrift by those “perfected savings banks.”

And all this vast amount of money — a sum that in truth nothing but Co-operation could have brought together from such homely sources — has found its way back, readily and surely, into employment of the most profitable and beneficent kind, where it is bound to do the largest amount of general good, greasing, so to speak, those millions of steadily revolving wheels in the world's machinery, to which it is difficult by other means to apply the lubricating golden oil, but which contribute most largely to the world's productive work and leave most blessings behind. The millionaire's speculative venture may make him the richer by more millions and enable him, like the emperor Vitellius, to feed upon larks' tongues; but it may also land him in

insolvency. The smaller man's humble work brings abiding comfort and contentment to the million. And it does so surely and naturally. Professor Carver—who, being placed at the head of the newly instituted Rural Organisation section in the United States Department of Agriculture, promises with his quick mind and evident energy to do a great amount of good service to American Agriculture—the other day remarked in a paper read before the “American Economic Association,” that “it has never yet been sufficiently emphasised that the function of a co-operative credit association is just as much to refuse credit as to give it.” Where does Professor Carver take such impression from? That has been the burden of the daily preaching of all recognised teachers of Co-operative Credit for more than sixty years back! It is just the discrimination among applications which makes this credit so fruitful. That is of the very essence of Co-operative Credit, the foundation stone upon which it is reared up. Its object is to stimulate provident, and to discourage improvident credit. As I ventured to put it more than twenty years ago in an article published in the “Economic Review,” Co-operative Banking deliberately “makes lending in the cases to which it applies difficult, in order to make it possible.” That of necessity implies refusals—which would be more plentiful if earlier refusals had not happily already graven the wholesome lesson of such testing on men's minds. People do not carry cases into Court upon the principle of which judgment has already been delivered.

And that tells, in a manner, the whole story of Co-

operative Credit. It has come into the world to do a new thing, to discharge a task which without it was not and could not be performed. It does not come forward as a rival to any other institution — except the usurer. It does not aim at crowding out other promoters of thrift or credit. The savings banks have suffered no damage by it, as Managers of Savings Banks have particularly assured me. In Italy — in that part of the country in which co-operative banks are strongest — they have brought out their books to show me that the co-operative banks, with all their taking of deposits, have made no inroad upon their own business. The saving which they stimulated was *new* saving. Neither have joint stock banks suffered damage. Notable bankers like the late Lord Avebury, previously Sir John Lubbock, have openly espoused their cause and publicly pleaded for them — Sir John Lubbock did so in Parliament — as a desirable public benefit. The National Congress of German Bankers, the benches of which were filled for the most part with representatives of large banks, meeting at Munich a few years ago, by resolution declared its opinion to the effect that there is ample room for co-operative banks by the side of their own institutions, and that such banks discharge a most useful public service. American bankers need therefore be in no state of tremor at the coming of Co-operation. They cater for a different class of men, for whom co-operative banks would scarcely be appropriate, just as little as joint stock banks would be appropriate for the “patrons” of co-operative banks. Indeed they act the useful part of feeders and recruiting sergeants

by joint stock banks, training clients for them, who otherwise would not be brought to their counters, just as the useful little "collecting societies" picking up coppers from humble working folk, train these to become customers of the large Savings Banks. The truth is that the world has grown and that the increasing compass of its business has made it necessary in all branches of business to "specialise." We want to "specialise" in banking as in everything else. With the world's growth requirements have multiplied. There are more people in it. And there are plenty more people to-day who desire credit, in comparison with what there were a generation or two ago. As the man so is the service. *A petit mercier petit panier*, say the French. Banking, like other interests, in Léon d'Andrimont's words, wants today to be "democratised" for the many. The small trader must have credit—well organised bank credit on reasonable terms. The small manufacturer wants it. The farmer wants it very badly—his is the crying need of the day. There is for him, in Thomson's words, "wealth for honest labour," provided that he can procure for himself that whereon to expend his labour. The jobbing artisan stands in need of credit. And so does the working man who, following a natural bent, implanted in him by Providence, like a certain potentate, seeks "a place in the sun"—the sun of independence and self-employment. All such needs—or most of them—a joint stock bank is not in a position to supply. It aims above the heads of the people concerned and shrinks from handling small change. However the world

wants buggies as well as coaches, and country traps as well as railway trains. There want to be cheap bread and tea shops by the side of the great Waldorf Hotels.

The question now claims to be answered: Has this good fairy of Co-operative Credit, so long neglected on the western side of the Atlantic, no good gifts in store for the great American Republic? Is that the only country in which there is no room for it? One would think that with its teeming millions, its vast treasure of still undeveloped or only partially developed resources — such as that immeasurable expense of land, to which for want of working capital, on the unanimous showing of the most competent authorities, quite insufficient justice is being done — with its wealth of only partially employed productive power, and the remarkable energy of its people, brimming over with “ideas,” the United States would be the very country of all others for this money coining power. Its record in the province of combined effort is really unique. The huge number of its associated enterprises termed “co-operative” by its vastness — as I have expressed it elsewhere — quite takes away the breath of European co-operators. There are such a number of them and their transactions are so huge. That serried host of Building and Loan Societies — depending as a matter of course on associated effort — now that the “national” societies and other abortions have been weeded out, stands one of the peculiar economic glories of the States. And indeed the United States have already, and not unsuccessfully, tried their hand upon the very form of Co-operation now under consideration. Pre-

cisely what those "People's banks" were which in their modest way flourished in some of the States before the Civil War, we cannot to-day quite ascertain, because no record of their organisation and business has been preserved. But there is a Report by a United States Commission charged by its Government with an inquiry, into their doings, which shows that with the exception of those located in New York—whose committees were led astray by eagerness for gain into speculation—they answered their purpose and did well in a small way. They were still in their infancy and evidently organised only on a very humble scale. However in the words of the Commission they have "demonstrated beyond doubt that, with equal prudence and intelligence on the part of the lender, *loans to the industrious and economical poor are as safe as those made to any class whatever of the rich.*"

There could not be a better send-off to the movement now proposed. As for the want of it, one would say that after all that has been set forth by three successive Presidents and a great number of other competent authorities, anent the backward state of Agriculture, with its rapid exhaustion of natural fertility, its poor yield of produce and its undeveloped methods—in that province, at any rate, there can be no doubt whatever. And when we look at industrial centres, what do we find? A handful of millionaires and an innumerable host of have-nots, held in servitude and often slaving for a pittance, making true the saying that their existence "is a being, not a living." Many of these men surely must have "ideas" which, translated into ac-

tion, with the aid of borrowed cash, would rapidly fructify into wealth and make repayment easy. The existence of a want cannot therefore really come into question. There is in fact an actual cry for co-operative credit — inarticulate still, but yet very audible; and, as lawyers put it, *res ipsa loquitur* — that is, facts speak for themselves; there is no further need of argument.

No doubt, in connection with such a state of things, there are in the United States special circumstances to be taken into consideration. In the United States, of all countries, it would not do to “take a German plant” — as I have described the process when speaking of Léon d’Andrimont’s pioneer work in Belgium — “and put it into an American pot.” Americans will rather want in their own way to follow M. Luzzatti’s example, of which he himself says: “We have not copied an institution, but produced a new type, and, impressing upon it the stamp of Italian originality, we have created the *banche popolari*.”

Well, there is ample scope for that. Justice may even be done to the American predilection for patronising something “of its very own.” The *principle* of Co-operative Credit is hard as adamant and cannot without prejudice be bent or tampered with. That is a matter of business and economics. There must be full security for the giver of money; there must be safety for the intermediate employer of money; there must be government of all, for all, a machine working, in which every spring and every wheel is called upon to do its own particular work, so that there may be life diffused over all parts; and there must be, as the soul of

the whole thing, a highly awakened sense of responsibility in all. But in the *form* of its application Co-operative Credit is as malleable and ductile as soft metal. There already exist a variety of forms such as Schulze-Delitzsch and Raiffeisen never dreamt of. M. Luzzatti recast the production of his venerated "supreme master" entirely without detriment to its principle. In India we have had to hammer the system about not a little to make it applicable to the case of the untutored rayat. You may choose to-day as you please. You may have shares or no shares, large shares or small, liability limited or unlimited, a large governing body or a small, you may raise money by deposits or by loan, you may lend for a long term or a short. And in all probability there are further modifications still conceivable, such as, to suit American conditions, a cute American may hit upon. It would be the most absurd, suicidal pedantry to want to insist upon a stereotyped form, not to make allowance for local circumstances, which — quite on the contrary — should in every case be the determining factor. Rhineland is thickly peopled, accordingly its rural societies are small. In Finland the population is widely scattered. And there good practical minded organisers have detected means of extending districts without prejudice to the working. In the district in Germany in which a long time ago for about six years I owned some property — where I became a member of the Silesian *landschaft* — I have found a Raiffeisen bank made practicable for five separate districts, whereas Raiffeisen recommended one for each parish; but the quintuple

bank worked well. So it is, once more, with the record of the loans. The German peasantry are afraid at the sight of a promissory note. Accordingly the Raiffeisen banks make a great point of it that they employ none, as between bank and borrower. In Italy promissory notes are the general rule. You do not want to look at such minor difficulties; they may easily be swept away. Your Building and Loan Societies were suggested by our British Building Societies. But for a long time, at any rate, they took a very different form — which invested them with all the more interest. In India the same prototype suggested the *niddhis*; but these, once more, were moulded into a new shape to suit their environment. Hold fast the principle, make yourselves well acquainted with that! And the rest is all “but leather and prunella.” Once you really want co-operative banks, and feel that you want them, your case must be an extraordinary one if the principle cannot be so handled as to suit it.

Some suggestions for setting to work about this matter it will probably be judged permissible to offer.

Legislation — by which one need really not set too much store; the main point is that it should not be framed so as to tie societies' hands and create additional difficulties — will, as observed, have to be by States. But it will be a great help to the movement if ex-President Taft's suggestion can be acted upon and common principles can be agreed to. To have all banks throughout the Federation alike in their main features — according to the type adopted — is bound to add to their power and utility. We have seen what a substantial

increment of strength union has given to the German Schulze-Delitzsch banks in comparison with the Italian *banche*. To be of the Union is equivalent to a certificate of quality. You know in every instance how your business will be carried out, how you will be treated. The same feature of essential unity ought, if possible, to be communicated to the propagandist movement. There may be rival schemes. But that is an evil to be put up with in the initial stage — in which it may indeed conceivably be made to serve useful purposes. But it should not be needlessly magnified. In Rhineland — which is in one sense the cradle of agricultural co-operative credit — at one time, what with the rivalry in progress among five different propagandist associations, each disparaging the other — for various co-operative schools have at times hated one another like cat and dog — people grew so frightened over all this mutual backbiting that they felt inclined to set down the whole thing as humbug. And it was mainly to put a stop to this that the Raiffeisen Union and its epigone, the Imperial Union, combined to a working *entente*. There will be so much to teach that needless rivalry will have to be deprecated.

There are Americans, as there have been Europeans, who for the creation of banks look with wistful eyes to the State as a helping fairy. Well, in the matter of teaching and preparing the ground Government authorities are welcome to render as much help as they please, so long as it is given in the right way. There is no harm in that. It is the *business* activity of co-operative societies, above all of co-operative banks, that

the State should carefully keep its hands from. To such an extent may the argument, which is so frequently abused, be allowed, that Co-operation promising to prove a *public* benefit, the community may be made to contribute to its creation. If carried to the length of support in business, such contribution destroys the benefit and converts it into a sore. But in providing facilities for teaching it may have its full swing.

To return to the point of unity, nothing is likely to further the movement more than its extension over a wide area, in which there are sure to be many heads with differing ideas, a variety of circumstances, and aids and hindrances of different kinds — more especially when the object is by means of common counsel to hammer out of the material provided something that is specifically American. Accordingly an all-Federation movement promises to be distinctly more fruitful than a mere sectional movement. The mere publicity thereby given is likely, by means of the interest awakened, to impart a new stimulus. But, apart from that, mind acting upon mind, like steel sharpening steel, and experience here brought into comparison with experience there, may be counted upon to produce good.

It will be well, next, from the outset to abstain from pitching one's immediate expectations too high. Co-operative credit is an economic force which can accomplish certain things — performing within such bounds what have rightly been called wonders — but which cannot do more. It is no panacea, no instrument to serve for all purposes. The late Ernest Brelay — not a co-operator himself; rather the reverse;

but greatly struck with the remarkable successes of Co-operative Credit—declared that there was absolutely no limit to its power. And so some ardent co-operators think with him. But in truth that power, large as it is, is distinctly limited; and whoever attempts to employ it beyond those bounds is sure to encounter disappointment. The success of such power is dependent upon certain conditions, in the absence of which Co-operative Credit should not be attempted. There must be a realised want of it; also a readiness to take it up and to make efforts and, it may be, sacrifices, for its success, under the conviction that that will be to one's own lasting benefit. The ascent is sometimes arduous. "You have no idea," so Herr Mager, an Inspector of Banks, some years ago remarked to a Congress of co-operative credit societies, of whose Union he is a Vice-President, "you, none of you, have any idea of the severe struggle that some of the older co-operative credit societies have had to pass through; but the result is that they are now thoroughly sound societies, which know the value of money; and we may make quite sure that they will not place any money which we may entrust to them in jeopardy." That is the right spirit. "*Vouloir*," so laid it down one of the best leaders of the co-operative credit movement, the late Léon d'Andrimont, "*voilà de grand mot de la Coopération, sa raison d'être, la garantie de son succès.*"

Apart from that, there must be an appropriate environment, a congenial organisation of a society. You want above all things touch among intending members. One system permits of large districts, another impera-

tively demands small. But, whether large or small, there must be touch; for there must be control and there must be knowledge of one another, which is impossible without touch. There must, furthermore, be the right sort of employment for credit, and the right sort of people to use it. Without all these things the task is hopeless.

From what has been said it follows, among other things, that you must not be in an overgreat hurry to form co-operative banks and to look for results. Such banks want to grow out of their own need. Excessive impatience is one of the curses of our age. All well-meaning people, when they have discovered a good thing, burn with impatience to see it covering the earth's surface with its institutions. That has led to many failures and to a great deal of false co-operation which may, like Potemkin's famous dummy villages, satisfy the eye of a credulous and exacting taskmaster, but stand for no genuine improvement. We have seen the matter tellingly illustrated in the British Isles. The idea of co-operative credit was taken up at precisely the same date both in England and in Ireland. In fact England had the start by about eight months. However people there cared more for results than for principles. They did not trouble to master the latter. They wanted to see banks springing up out of the ground like Pompey's famous legions, here, there, everywhere, casting their blessings abroad, and be able to take credit for such success to themselves. "Do not tell us about principles," that was the message that an admirably philanthropic captain of industry, then in

the Commons, sent up to me while I was addressing a gathering of Members of Parliament in a Committee room at Westminster twenty years ago; "give us the rules; we will find the money." Now, as it happens, in Co-operative Credit principles stand for everything and money is but a tool which can readily be obtained. Our various propagandist associations, changing their name from time to time, but not their insufficiently informed guiding head, laid themselves out for "results," sending uninstructed "organising secretaries" abroad to "form banks." The upshot is that we have after more than twenty years little more than nothing to show. Sir Horace Plunkett, in Ireland, determined to go the opposite way to work. His colleagues, on the Committee of the Irish Agricultural Organisation Society, heckled me on my first propagandist visit to Dublin, as I have never been heckled before or since. They wanted to know everything about every point. The result is that they have correctly mastered the principle — which, as observed, is everything — and easily produced banks, which have done admirable work. Not too many. They cannot make a boastful show of imposing figures. "Let us have few, if it must be so," that was practically Sir Horace's instruction, "but let those few be good; provided that they are so they may be trusted in course of time to produce a large host that may be relied upon to serve as useful models." The Registrars in India are proceeding on precisely the same sound principle, walking circumspectly, not as fools but as wise, although they cannot altogether restrain the tremendous impatience which drives the

usury-stricken rayat into seeking relief in co-operative banks. As far as they can they apply the brake of vigilant examination and sifting. Obviously banks carelessly formed or faultily administered are bound to damage the cause and lead people rather to abstain than to follow their example. A bad bank is a snare, be it ever so well endowed or pretentiously patronised. You cannot produce a sturdy plant in a forcing hothouse. And your co-operative banks, to be of any use, want to be as an oak that will "brave the tempest and the breeze." Co-operative banking is not a matter of a "trick." All those State-endowed or patron-led co-operative banks of part of the European Continent — which present so imposing an appearance on paper by their numbers, but make sad the heart of good co-operators, and cost the taxpayers so much money which does not return, while producing mere parasites and leeches — are the result of impatience. Better let the movement run its normal course. Those impatient Governments which — rightly enough — desire to favour the cause of what ought to be for the people an unmixed blessing, would have done far better to have sent competent teachers about to instruct the people on the principles of co-operative credit — they need grudge no money for that — leaving the people themselves to decide whether they would try a bank, than to urge them to form such and to bribe them to it by gifts handed over as such or else presented under the mask of repayable advances which are not repaid. More haste in this case is likely to prove worse speed. You will not want to see in your country, as has happened in Austria, un-

der the principle here denounced, 16,953 banks formed, of which 3,660 soon had to shut up shop. Propagandists' and organisers' great care should be to form *good* banks only, in places where banks bid fair to prosper. And all this implies, so it may be well to point out, that the intended teachers should be themselves first well taught. This is a practical matter, for which mere book-learning and cogitation will not suffice. We of the twentieth century possess this advantage that the ground has been planed for us. We need no longer go about groping our way, as our precursors had to do. There are good banks, tested by experience, in existence, to teach us. That is another mistake that leaders of the movement in England have made. They evidently thought that *any* one would do to teach the proper methods. We now see how grievously they miscalculated. One of the first and most successful pioneers of the movement in India, Mr. R. Gourlay, having been introduced by me to the heads of most of the various continental Unions, made a point of spending four weeks at Neuwied, to see the Raiffeisen system at work with his own eyes. And he tells me that nothing has stood him in so great stead in his organising practice as what he learnt there.

And, next, it is important that every bank formed should have its own peculiar solid foundation. In the race for rapid results we are tempted to think in a wholesale way — form many banks, unite them in one centre and interconnect them in their work and in their liability! That would be a serious mistake. There can be no enduring success on such lines. Of all dan-

gers that which co-operative banks will have to be most careful to avoid is that of interconnected liability. In co-operative banking everything depends upon "dividing down" responsibility which means liability; and of such liability every one who undertakes it ought to be absolute master. They have a homely word in Germany, much used by way of warning in this connection, which is intended to describe the condition of banks interconnecting their liability. It is *rattenkönig*, "king-rat," that is, the rat which has gobbled up all the other rats and has thereby become a deadly terror to the murine species, since it is given to murine cannibalism. It is the bad bank which will in this way in the end in the same way gobble up the good ones, supposing that they are confiding enough to pool their liability with that of the bad bank. Union is a capital thing, in the present connection as in others. It is really only Co-operation carried one step further, and is therefore in full keeping with our general task. But it should come in the shape of a federation which leaves every unit standing upon its own financial foundation, answering for itself. That is why central banks should not be formed with other than strictly limited liability. But in any case Union cannot come until there are units to unite. It is the good, sound bricks which make the enduring building. You may raise up a wall with jerry bricks kept together by the mortar which unites them. But that wall will not stand. Co-operators aim at something that may be relied upon to endure, and in it every brick wants to be of good sound quality, and able to answer for itself. If there is to

be a central bank, such bank will have to consist of independent banks each staking its own limited share and retaining control over its own liability. A central bank which is not managed by its own constituent members is not a central bank at all, but a foreign institution, just doing business with co-operative banks as standing outside their host; and, if treated as a central bank, it may become a danger.

The ground being, as we will assume, found favourable for an experiment in co-operative banking, an important question to decide will be what form the co-operative bank proposed is to take.

Now that question really, as matters stand, divides itself into two. For there is the preliminary point to deal with, whether preference should be given to mortgage credit or else to personal; and after that the point will have to be decided which particular type of bank to select.

In the United States at the present time opinion appears to be keenest in favour of mortgage credit. Indeed the entire agitation now in progress appears to have taken its rise in dissatisfaction with existing arrangements for real estate credit; and to that extent the claims of personal credit are in some danger of being overlooked or at any rate more lightly appraised than they deserve. Mortgage credit has here already been dealt with in a separate chapter, and there reasons have been given, or suggestions made, why mortgage credit had, perhaps, in its earliest stages be left rather to capitalist than to co-operative enterprise. Not that there are not excellent co-operative mortgage credit societies.

However their number is comparatively small, and where they exist they have been called forth by special circumstances such as do not to the writer appear to exist in the United States. To judge from what American writers say on the subject, when praising up the *landschaft* as the model to be followed, what they really mean to plead for is the principle of raising money by debentures or bonds, so as to make the provision of any share capital of any importance unnecessary, and placing such bonds, in return for mortgages of equal value, where they cannot, except for default, be called in by the lender and will be repayable like terminable rent-charge. Now for such practice you do not need a *landschaft* at all, with its antiquated feudal-bureaucratic organisation, its scarcely constitutional privileges, and its necessarily cumbrous methods — which are really what puts a distinctive stamp upon a *landschaft*. Other bodies may raise money and lend it out on precisely the same principles, without all that old-world hocus pocus. The Danish mortgage societies, to state one instance, are not *landschaften* at all, although they have been classed as such by some American writers insufficiently informed. They are democratic co-operative bodies of an entirely modern cut. If you decide to have corporate bodies of what you are pleased to call the *landschaft* type right from the start, for dealing out mortgage credit, it is these rather that you should take as a model than the lumbering and clumsy German *landschaften*, which have done well nowhere except where there are magnate rule and Crown patronage, as in Germany and in Hungary. It is quite true that in-

dividual capitalists cannot deal in mortgage credit on *landschaft* lines. Only a body with more or less permanent life can do that. However joint stock mortgage banks are in a position to serve their public in precisely the same way as *landschaften*, securing themselves by *contract* as *landschaften* are secured by anti-democratic privileges — more particularly under modern law, which has provided expeditious processes for urgent cases. And such companies bid fair to prove more congenial to American habits and temperament than feudalized *landschaften*. Eulogists of the latter admit that the methods of the companies are as efficient and that their credit is as cheap as in the case of *landschaften* — more businesslike organisation of a modern type making up for the special advantages accorded to *landschaften*. Things in America appear still, at any rate in many sections, in too unsettled a condition to justify a rush-in at once of Co-operation. Of all agencies Co-operation necessarily is most exacting in the requirement of settled conditions, just because it is a union of persons, not of capitals — of persons, who want more or less to know one another, who want to be able to trust one another, and who want to know that they are acting together for a certain length of time, as a permanent association. Once capitalism has explored the ground and detected its dangerous spots, it will be quite time enough for Co-operation to come in, if there is a disposition for it, as a competing force. By such time very possibly its peculiar postulates will have been satisfied. So best let others try the thickness of the ice.

For mortgage credit neither Schulze-Delitzsch nor Raiffeisen banking will be advisable, save in quite exceptional cases and for short terms only. In respect of personal credit the choice practically lies between them. You may adapt them in form. But there has no successful attempt thus far been made to get away from them or to intermingle them, and it is difficult to see how either the one thing or the other could be done without detriment. The fundamental principles of credit are everywhere the same. And the formal application given to them must be consistent in itself. You cannot take a little of one and a little of the other, combine, as it is sometimes put, "the best features" — which means the features which most please your fancy — "of one system with those of the other." Such attempts invariably end in an economic parallel to the famous construction of a supposed ideal human body out of selected parts familiarly associated with the name of "Frankenstein." In each system every particular part possesses its own specific justification and *raison d'être*. It supplements other parts. It cogs into them like one wheel in a piece of machinery into another. Not only is this so, not only is each system compact and complete within itself, but people will have to understand to a greater extent than appears to be the case at present that one system suits one particular set of circumstances, the other another. The two are like a workman's implements, one of which is employed for one purpose, the other for another, neither being interchangeable.

Public opinion in the United States is at present evi-

dently very much taken up with the merits — rightly enough freely extolled — of the system of Raiffeisen. That system has indeed great triumphs upon which to pride itself, and constitutes a truly admirable machine for what Mr. Gladstone, as already shown, has called “man-making.” That is its object. Just as Mr. Gladstone in the saying already quoted—which, by the way, was (phonographically) addressed to an American audience — placed “thrift”—that is, the improvement of the material circumstances of a man—as the first prerequisite to “man-making,” so Raiffeisen bases his own conquest of man for higher purposes upon the bettering of his economic position. To be full “man” a man must be independent and master of his own actions. Twenty years ago the late General Booth impressed me for the rather difficult task of devising rules for Raiffeisen societies to be formed in India under Salvationist authority which, so far from being democratic, as Raiffeisenism demands, is strictly military. “My difficulty,” so he explained, “is this: as soon as my officers succeed in gaining over a native for Christianity, the all-powerful, omnipresent usurer steps in with his unanswerable veto: if you become a Christian, I sell you up. Now, to meet this, we must have your banks.” The scheme then failed, because it formed part and parcel of a much vaster and more ambitious scheme of land settlement on a larger scale, which proved impracticable. However General Booth’s estimate of the situation in India appears fully borne out by the magnificent spread of co-operative banking—mostly of the Raiffeisen type—in India at the present

day, in which, it may be added that Christian missionaries of all creeds — Church-of-England, German Lutheran and Roman Catholic — take their proper part. In one way or another that unfortunate servile dependence upon the dollar shows itself everywhere. Europe has, as Gustav Freytag has shown, its own type of "slave life," and so has America — as crop liens, store liens and corn, fruit and cattle rings testify. Therefore if man is to be turned into true "man," first of all his material condition will have to be bettered. However Raiffeisen's real aim lies beyond that, in the creation of a man who, as the late D. Schloss — who was not anything of an enthusiast — expressed it, "has the fear of God before his eyes." Raiffeisen's work also is, as the German Chancellor, Herr von Bethmann Hollweg, has put it, eminently "detail work." It busies itself about little things, being done, in every single instance, on a small scale. It requires personal influence of one man upon another. Therefore it is applicable only in small districts. Raiffeisen put the ideal district at an area with about 400 population, by preference a single parish. And so highly did he rate personal influence that he laid it down that, once a good chairman was found and a good secretary or accountant, work might forthwith be begun, looking for others to "fall in" as time went on. There could be no greater mistake than to put this type of bank into requisition for purely business purposes, more particularly on a large scale. Nevertheless in noble-minded people the temptation to do so is evidently strong. In England, some eighteen years ago, I was urged by a

great philanthropist of the religious sort, the late Dr. Paton, to come to his town, Nottingham, and there to assist in the promotion of a Raiffeisen bank in a rather distant suburb. A visit there satisfied me that that was the last place for a Raiffeisen bank to work in. However nothing would content the reverend doctor, with his philanthropic notions except "Raiffeisen." The scheme, of course, did not "come up." On suitable ground there is nothing more admirable, nothing more effective than a Raiffeisen society. The sight of its work carries one away with enthusiasm. It gathers local people together like a hen clucking her chickens under her wing, and it reforms them and elevates them. I have told elsewhere the story of the village of Frankenheim in Thuringia. It was at one time a veritable pest hole. The inhabitants were of the roughest sort. No one would trust himself into their company. They were given to thieving and fighting and cheating, and there was scarcely a misdeed perpetrated in the district which was not set down to them as a matter of course. As a matter of course also they were miserably poor. They dwelt in ramshackle hovels which were, like their poor skin-and-bone cattle, pledged roofhigh to the usurer. In pity the consort of the sovereign of the land, the late Grandduchess of Saxe Weimar, set up model cottages for these people to live in at a nominal rent — \$7.50 a year. It was all to no purpose. The men would not rent the cottages, nor reform. A painstaking clergyman, who afterwards became one of the pillars of the Raiffeisen connection, came into the parish. He started a Raiffeisen society,

took a personal interest in the people, showed them how to get rid of the usurer, how to set up their own new dwellings, by their own efforts, at a terminal rent-charge five or six times as high as the Grandduchess' rent, taught them how to improve their agriculture and to secure better cattle — and the whole face of things has become changed. There is now no better conducted and better conditioned village under the sun than Frankenheim. Similar instances might be quoted in plenty from all parts of Europe. And under the Raiffeisen system people become bound together, as a Hungarian Professor has expressed it, "with the link of true brotherhood."

Where you have work of a different kind to accomplish, you will have to seek in your tool chest for a different instrument. The knife for cutting and the saw for sawing. The system originated, in two parallel forms, but on the same principle and with the same end in view, severally by Schulze-Delitzsch and Luzzatti aims only indirectly at "man-making," in Mr. Gladstone's sense of the word. Good economics, as the Italian statesman Minghetti has put it, indeed have a natural tendency to produce also good morals, and M. Luzzatti would have the "character" of its members rank as the best security of a co-operative bank. But the direct aim is to do the possible best with every man's dollar, to make that go further, with a view to adding more dollars to it. The foundation of the system is capital — small capital at first, to be made available for better work by union, but to be steadily and systematically added to as a matter of principle. Raiffeisen

began without capital and worked up to it by means of that unlimited liability which, one is thankful to find, is likely to have fewer difficulties to contend with in the United States than it has had in England. For in a Raiffeisen bank unlimited liability is indispensable. That intermediate form of liability which is so common in the United States, as it is on the European Continent, which makes a shareholder liable for something more besides his paid-up share, must prove a valuable help to banks of this more purely businesslike type, because it gives the lender after all more ample security for his money. It is, by the way, a great mistake to suppose, as is stated in one or two American books, that co-operative banks based upon shares all have limited liability only. The majority of those German co-operative banks, which take the lion's share of the banking output, are based upon unlimited liability, and pride themselves upon it. And so are many Austrian banks. This system reck little of districts and boundaries. It knows how to overcome difficulties of space. No more does it depend upon small numbers. You may form banks under it of any size. And its societies become more of real "banks" — by reason of a variety of services — than those of the other. It is a great mistake to suppose, as some people do, that their system is not applicable to Agriculture. Under it, indeed, more money has been dealt out to Agriculture than under the Raiffeisen system, but in a more lumpy way and to, in the main, a different class of farmers, with more possessions of their own. Cremona, Rovigo,

Augsburg, Insterburg, Cosel, Gotha and more besides, are evidence of this.

The proper environment for each system being so clearly marked out, the choice of one to follow ought not really to present any serious difficulty. Very little study of the two systems and of the particular circumstances of a district ought to suffice to determine that point.

There is one more point to consider. A question has lately been put forward in American literature on a subject which has occasioned not a little discussion in Europe, namely, whether co-operative trading had or had better not be combined with co-operative banking. As a general rule it will be best to keep the two things entirely distinct. Certainly this ought to be so wherever either banking or trading assumes at all substantial proportions. The great discussion in Europe arose over the combination of the two kinds of business in certain central organisations, in which it certainly was out of place and has also, on the ground of unsatisfactory results, been discontinued. Raiffeisen made his little village societies veritable "maids-of-all-work" for his people — in part just because the societies were so small that no serious inconvenience was likely to arise from the combination. One staff would be sufficient for all purposes, and not every village will be in a position to produce more than one staff. On that ground also we have — thus far unsuccessfully — claimed trading powers for Raiffeisen societies in Ireland. And there is another reason which has im-

pelled us. Rural Ireland is the special hunting ground of a particularly grasping class of men locally known as "gombeenmen"—the traders who lend money and buy and sell goods, and who do all this business at a rate of profit to themselves which sucks the very life-blood out of their victims and holds them in perpetual peonage. Our banks oust him from his coign of vantage in money dealing. However he knows how to make up for that in dealing in goods. At the same time some of our little banks, advisedly charging low terms, net little of an annual surplus. Trading would yield them a certain profit. For we have a great Co-operative Wholesale Society to buy from, which deals liberally with small societies. The rate of surplus realised on distribution is now as a rule about 10 per cent. This would be a great help towards banking and towards co-operation in Agriculture generally. Unfortunately the Irish country trade is rather numerously represented on the Irish benches in Parliament, and those who represent it do not like to think of having the not very creditably gotten bread taken out of their mouths. In America it must depend upon local circumstances and upon the size and nature of banks whether it is opportune and legitimate to combine the two classes of business. Certainly such combination should not be carried above the smallest class of societies. In that class it may be of advantage in banks formed on Raiffeisen lines.

What with a general disposition leaning to common action, with a tolerant mind with regard to liability

and with an acknowledged want of more ample working funds, one would think that circumstances in the United States must be distinctly favourable to the formation of co-operative banks. Whether the result is destined to be as fruitful as the general aspect of things would suggest, can be decided only by practical experiment. Were such experiment made — and it could not in any case lead to serious loss — its development might be relied upon soon to indicate at what points of the European system modifications are desirable to meet American conditions. But the safest plan, so one would think, must be to begin with that which has already proved so richly successful everywhere, under every sky, amid all races and for all classes of the humbler sort of businessmen. Whoever knows what enormous, most valuable services Co-operative Banking has it in its power to render, cannot indeed resist a feeling of astonishment at the fact that the United States, the chosen home of enterprise, the beehive of business with its many millions of workers, has gone without it so long. Providence appears to have called commandingly for its introduction by the discovery made that American Agriculture is retrograding instead of advancing, that fertility is being exhausted, agricultural enterprise underpaid, and that the whilom granary of the world stands in danger of becoming dependent for food upon other, more thinkingly strenuous, nations. Please God, Co-operative Banking may carry relief and improvement with it! After what it has accomplished elsewhere, there seems indeed ground

for hoping that to America likewise it will bring those gifts, that wealth diffused among the many, and stimulus to enterprise, which tend to make a prosperous and contented nation.

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THE END

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